

# IRAN

## The Illusion of Power

ROBERT GRAHAM

Revised Edition



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# CONTENTS

Acknowledgements

Introduction to Revised Edition

## **Part I: The Creation of Modern Iran**

- 1 The Coming of the Boom
- 2 The Growth of Urban Iran
3. Oil and the Iranian Economy
- 4 Monarchy and the Pahlavi Dynasty

## **Part II. Cycle of the Boom**

- 5 The Big Opportunity
- 6 Limits to Oil Wealth
7. Successes and Failures

## **Part III: The System of Power**

- 8 Use and Abuse of Power
- 9 Control Through Money
10. Influence of the Military
- 11 Problems of Culture
12. Opposition and Revolution
13. Conclusion

Appendices

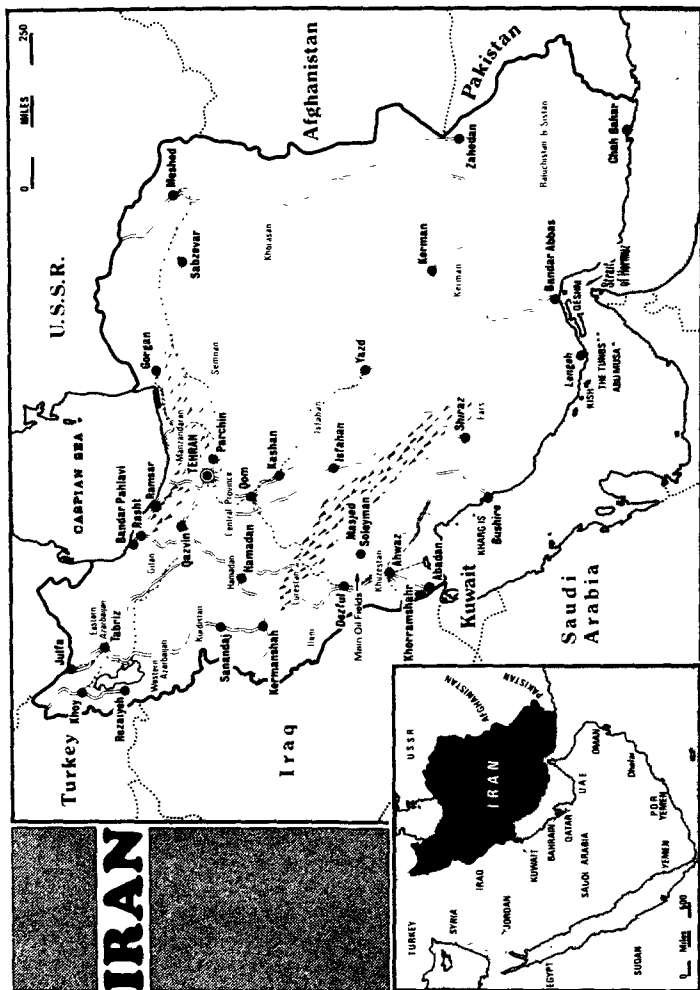
Index

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FOR TOUNA



# IRAN

## INTRODUCTION TO REVISED EDITION

This book is the result of spending just over two years as the *Financial Times* Middle East Correspondent based in Tehran, from June 1975 to July 1977. I arrived when the boom created by the 1973 oil price rises was at its most uncontrolled. I left just when the first signs of political protest were emerging.

When I arrived the psychosis over Iran's new-found power was at its height. One of the most lasting impressions was to see senior executives of major international companies prepared to tolerate every indignity and discomfort, including sleeping in hotel lobbies or hospitals (a Japanese ended up one night in a mosque), and waiting for days on the favour of Iranian officials in the hope of doing business. At that stage it was clear that Iran had been presented with a unique opportunity, but the tremendous confusion of the boom made it hard to judge how this opportunity was being exploited. Yet in a remarkably short space of time a pattern emerged which enabled this period to be encapsulated. When this book was first conceived and written, this capsule covered the period 1973-7 – a cycle that went from the sudden acquisition of increased oil wealth and its hectic spending through to the gradual realisation of the problems created and the eventual disillusion and change of pace and style. But this extraordinary period proved merely the background to more dramatic events – the collapse of the Pahlavi dynasty and the establishment of an Islamic-based republic in 1979. In this new edition I have added a chapter to take account of the swift fall of Mohammed Reza Shah and to analyse why so many heterogeneous forces coalesced in a revolutionary movement under the broad banner of Islam championing Ayatollah Khomeini. By therefore extending the timescale of the original capsule this makes a tidier and less arbitrary historic period. The new material provides the answer inherent in the original text – how long could the Shah survive and in what manner would he go?

I have chosen to make few alterations to the original chapters and these are largely confined to changing tenses. But I have included some new material on the economy which completes the cycle of the revised Five Year Plan, 1973-8, and which also happens to coincide with the last 'normal' year under the Pahlavis. As far as possible I have relied upon original sources and my own contacts and observations while in

Iran. I regret that Mohammed Reza Shah declined an interview. Although prepared to see people from outside, he seemed reluctant to talk with local correspondents, perhaps because they knew too much. Frequently I have been obliged to conceal my sources. Except where Ministers have spoken to me 'on the record', I have avoided names as a whole. Indeed it was only on the basis of unattributed background that most Iranians and foreigners connected with Iran under the Shah were prepared to talk. Even though some of these persons are either now dead or living in exile I have decided to retain this anonymity. A number of important participants during this key period have been executed by revolutionary courts and many documents destroyed.

For background I owe an enormous debt to two authors who have helped in forming my appreciation of Iran. For an appreciation of the political apparatus of modern Iran, I found Marvin Zonis's *The Political Elite of Iran* invaluable; while for an understanding of the Iranian economy I relied extensively on Julian Bharier's *Economic Development in Iran: 1900-1970*.

Although this book is largely based on material gathered while working for the *Financial Times*, the views expressed, and my approach to this material, are my own and do not reflect those of the paper. However, I am grateful to many members of the staff of the *Financial Times* who have been of great assistance during my work.

Madrid, April 1979

Part I

THE CREATION OF MODERN IRAN

# 1 THE COMING OF THE BOOM

It was a performance to match the occasion. On 23 December 1973, while the Ministers representing the Gulf members of OPEC were still in formal session, Mohammed Reza Pahlavi, Shah of Iran, called a press conference. His announcement was a staggering new increase in the price of oil. The Shah displayed his usual mannered polish but his tone had a new confidence – the confidence of a man who knew that his country's financial resources had quadrupled in just over two months. From being a developing country with moderate wealth jostling for recognition in the world arena, Iran had suddenly entered the ranks of the world's most prosperous nations with the chance to play a correspondingly larger role.

Unashamedly the Shah turned the occasion into a lecture. Typical of the message he put across was this answer to a question about the high price of oil:

We are only pricing the minimum it [oil] could be priced in comparison with other sources of energy. Well, some people are going to say this is going to create chaos in the industrialised world, that it is going to be a heavy burden on the poor countries. That is true; but as to the industrialised world they will have to tighten their belts, and they will have to work harder or eventually this help to the other countries of the world will be diminished, and this role taken up in my opinion by the new wealth of the oil countries.<sup>1</sup>

Some of his statements were more provocative:

Eventually all those children of well-to-do families who have plenty to eat at every meal, who have their own cars, and who act almost as terrorists and throw bombs here and there, will have to rethink all these privileges of the advanced world.<sup>2</sup>

He clearly revelled in the uncomfortable message he was conveying to the outside world. He was riding the crest of a wave and knew it.

In December 1973 there was no effective challenge to the Shah's message. A bemused industrialised world was trying to come to terms with what appeared to be a major shift in the balance of power, tilting

it for the first time in the direction of the producers of essential commodities, particularly oil. The seeming heedless dependence upon oil as a cheap source of energy had been emphasised by two separate but connected events — even before the December price rises in Tehran. At an earlier OPEC meeting in Kuwait in October, a 70 per cent increase in the price of crude oil had been agreed. This meeting was held against the background of the Arab-Israeli war. With fighting at its height, the Arab OPEC members decided to institute production cut-backs, as a means of generalised pressure on the West, and impose a selective oil embargo on exports to the Netherlands and the US for their pro-Israeli stance. This punitive action by the Arab oil producers led to a sudden shortage of crude in the international market, producing a desperate scramble to purchase oil at any price. Just before the Tehran meeting in December, the National Iranian Oil Company (NIOC) had carried out an auction in which oil sold at \$17.34 per barrel. This was over three times higher than the increased price fixed at Kuwait two months earlier. Thus when the Tehran meeting announced a price of \$11.65 per barrel as the new bench-mark price for crude sales, it almost looked as though OPEC was doing the world a favour.

The combined effect of the price rises throughout 1973 was to raise Iran's annual oil revenue from \$5 billion to \$19 billion. Put another way: for every barrel of oil sold, Iran received \$7 instead of \$1.95.<sup>3</sup> Never before had the oil industry seen such a quantum leap in prices and revenue. The Hudson Institute in an astute but provocative report on Iran poured cold water on the idea that such sudden new financial wealth could alter the status of Iran, ascribing this view to a 'panicky product of the industrial nations' own demoralised reaction to what has been a real, but *limited* shift in the international commodities and money markets'.<sup>4</sup> Though true in that the new financial muscle gave illusions of enhanced power, this nevertheless ignored the climate of the time, especially the psychological climate.

Iran, the second-largest producer within OPEC and the second-biggest exporter of crude oil in the world after Saudi Arabia, took no part in the oil embargo or the October production cut-backs. The Shah made it clear he would not countenance oil as a political weapon in this context. This position, coupled with the fact that Iran was not an Arab country, singled it out for special prominence as international attention focused on the oil producers. The soft-spoken and articulate Saudi Arabian Oil Minister, Sheikh Ahmed Zaki Yamani, appeared to be holding the world to ransom. In contrast the Shah managed to generate a more responsible and Olympian image. He cast himself as the man push-

ing for the correct price for 'the noble product'.<sup>5</sup> He was also careful to emphasise that the new price of oil was no mere windfall, rather a reflection of international demand and the cost of alternate sources of energy. This philosophy had put him in the forefront of those pressing for higher oil prices. The fact that Iran, with a population greater than the combined total of all the other Middle East oil producers, needed higher oil prices to develop its oil-dominated economy reinforced this philosophy. Thus with the biggest price increase occurring in Tehran, the Shah's views were vindicated and his personal standing as a key figure in OPEC was enhanced.

External perception of Iran was almost certainly conditioned by its ruler being a pro-Western monarch. The Shah's audience was essentially the Western world, which had a greater built-in readiness to accept the pronouncements of a pro-Western monarchy than republican or revolutionary régimes. This helped create a sense of awe towards this self-proclaimed prophet of the new order. Besides there was an uncomfortable ring of truth about the need to tighten belts, conserve energy and think ahead to the time when the oil wells would run dry.

Officials in European capitals had been knocked off balance by the sudden leap in energy import bills, and sought ways to curb energy use. Italy, for instance, 80 per cent dependent upon imported energy, banned Sunday driving as a temporary expedient - what greater challenge to the habits of modern consumer society in a country where the car had become a symbol of progress! In the US the Pentagon leaked aggressive scenarios of possible preventive take-overs of Saudi oilfields. People in industrialised societies were having to adjust to the emergence of the oil producers at a moment of recession. In this atmosphere it was remarkably easy to be impressed by the Shah confidently ordering more tanks than possessed by Britain and boasting of Iran entering the ranks of the advanced countries before the turn of the century.

The international community's view of Iran and Mohammed Reza Shah's view of his own role and that of Iran interacted and lionised each other. The interaction was a dizzy and wholly unrealistic environment in which vision and reality merged into one. It became an article of faith that within twenty years Iran would become a Great Power, the fifth Great Power. The Shah began to propagate in earnest the idea of Iran being at the threshold of the Great Civilisation - a notional state of national well-being with industrialisation achieved and a full regeneration of Iran's ancient heritage.<sup>6</sup>

Throughout the country there was a feeling of a transformation about to take place. The Shah's first public action after the oil price



risers was to declare education free up to the 8th grade, free school milk, and, for those who wished to serve the government, free higher education. Money, it seemed, could sweep away all the problems of development, and those that remained could be tackled with the latest technology imported from abroad.

The Shah was courted by the world's leaders with deference. Only two years previously, the Shah had been bitterly disappointed by the failure of several heads of state to honour his lavish festivities at Persepolis, celebrating 2,500 years of monarchy. President Pompidou, for instance, despatched his Prime Minister Jacques Chaban-Delmas to deputise, something the Shah never forgave.<sup>7</sup> Now President Giscard d'Estaing was willing to make a special visit to the Shah holidaying in the Swiss ski resort of St Moritz in the hope that French companies would receive some of the new contracts being enticingly waved by Iran. He was not the only one. Hard-pressed governments sent their Ministers to talk business with the Shah, and if successful their exploits were reported in the press with the acclaim of a major sports victory.<sup>8</sup> For someone who had seen his father forced to abdicate by external powers, and who himself had been installed as a puppet monarch, this was a novel and exhilarating experience.

But what does a country do when its income quadruples in less than three months – especially a developing country? There were no precedents. The basic constraint on Iran's development until then had been insufficient foreign exchange. With the foreign exchange constraint removed the possibilities seemed limitless.

In less than fifty years Iran had moved from being a poor, isolated, backward country to a position where industrialisation was taking root and a modern infrastructure being laid. Thanks to oil, the *per capita* income was high compared to the majority of its fellow developing countries. But the country's basic development needs were enormous and the population still over 50 per cent illiterate.<sup>9</sup> The sudden accrual of this new wealth seemed to provide the economy with just the right support to move from near-total oil dependence to self-sustaining growth. Iran's oil reserves would only last just beyond the turn of the century. Therefore there was little time to achieve 'take-off' and each year was vital.<sup>10</sup>

Dazzled by its new importance and spurred by the prospect of economic take-off, the Iranian response was unashamedly grandiose. The Fifth Plan, less than one year old, was set aside and in its place a new set of objectives introduced costing \$69 billion: double the original estimate. The new plan, approved in August 1974 at a special conference

at the Caspian resort town of Ramsar, was more a statement of intent than a concrete blueprint. It was designed to impress how great Iran was about to become. No developing country had produced such a large investment programme, and it was the first to appear in the Middle East reflecting the new spending power of the oil producers. (The Saudi development plan did not begin to become public until late October 1975.) The overriding philosophy was 'nothing venture, nothing gain.'

The obvious problems of the new Plan — the stability of future oil exports, the impact of inflation and the lack of skilled manpower and infrastructure — were brushed aside by a crest-of-the-wave confidence. 'The shortcomings you have mentioned, especially the labour shortage, might turn out more acute than you think. However, there are solutions,' the Shah told the closing session of the Ramsar conference.<sup>11</sup>

Moreover, his calculations were based less on economics than on politics — the politics of his own survival in a regenerated Iran. The Shah intended to use this new money to consolidate his Pahlavi dynasty in a prosperous Iran. Money would be the carrot and the stick to achieve stability.

In the 18 months that followed the Ramsar conference, Iran witnessed a period of unprecedented boom. Because the oil revenues accrued to the government, it was government expenditure that became the vehicle for disbursing and distributing this new wealth. Once the government enlarged its budget and started releasing funds, the impact was felt very quickly. In the Iranian year running from March 1974 to March 1975, the government spent the equivalent of \$22 billion. This was only marginally less than the entire expenditure for the three previous years.<sup>12</sup> The effect of such an increase in spending was like changing from first to fourth gear in a car going downhill. Comfort and control were sacrificed to speed. Instead of the original aim of an annual growth rate of 11.4 per cent (already high by the standards of any developing economy), Iran went for 25.9 per cent.

However, the boom was short-lived. In just over two years, by mid-1976 expenditure overtook revenue and accumulated bottlenecks curbed the hectic pace of development. Official recognition of the changed circumstances took a little longer; but when it came it was a complete reversal of the arrogant self-confidence of December 1973 at the time of the Tehran OPEC meeting.

In an historic interview on 25 October 1976 with the editor of *Kayhan* (Farsi), one of the main daily newspapers, the Shah declared somewhat ruefully:

We should not allow the same vultures to gather from everywhere and tell us to do this or that with our money while we do not have enough cement, enough bricks, enough port capacity, enough roads, and enough powers of absorption. It is absolutely certain we shall not repeat the mistakes of the past. That was a short period which is over and gone.

He then added: 'The reason for this situation was that we acquired money we could not spend.'<sup>13</sup> The pace of Iranian development had slowed more or less to the level envisaged prior to the advent of the surplus funds.

Though brief, this period was a crucial moment in the development of modern Iran. Throughout, both the style and the direction of policy were entirely the responsibility of the Shah. A sympathetic view of events would suggest that the Shah made natural and inevitable errors forced upon him by a combination of external and internal pressures. A less charitable view would be that for selfish reasons dressed up as patriotism the Shah squandered a unique opportunity. By trying to do too much too quickly he undermined the very dream of Iran he so earnestly hoped to realise, retarded the development process and set in motion revolutionary forces that proved so destructive that the achievements of the 50-year-old Pahlavi dynasty disappeared. However, judgments like this cannot be made in a vacuum. To appreciate what was at stake it is necessary to take a wider look at Iran and Iranian society.

## Notes

1. *Kayhan International*, 25 December 1973.

2. Ibid. See also *Middle East Economic Survey*, 28 December 1973.

3. Bank Markazi annual report, 1973/4, p. 11.

4. Hudson Institute, Report on Iran, Paris, 1 March 1975. This was the first attempt to cut down to size the newly perceived status of an oil producer in the wake of the 1973 price rises.

5. 'Oil is a noble product which must be put to noble uses.' Shah press conference, Tehran. See *Kayhan International*, 25 December 1973.

6. *Mardom (People)* magazine, 31 December 1973.

7. Gerard de Villiers, *L'Irrésistible Ascension de Mohammed Réza, Shah d'Iran* (Paris, Plon, 1975), p. 369.

8. The British government appeared gushingly grateful to the Shah when as a result of a visit to St Moritz by the Trade Secretary, Peter Walker, in January 1974, it was agreed to sell Britain 5m tons of crude oil against £110m worth of British goods.

9. International Labour Office, *Employment and Income Policies for Iran* (Geneva, International Labour Office, 1973), p. 25. According to the 1966 census 30 per cent of the population were illiterate; 15 per cent had not completed

elementary education and only 11 per cent possessed a full secondary education.

10. Unofficially Iran has proven reserves of about 70 billion barrels. NIOC officials told the author that the production ceiling could slip below 6.4 million barrels per day before 1984

11. *Kayhan International*, 4 August 1974

12. Bank Markazi annual report, 1975/6, p. 51 In 1974/5 expenditure was Rs1,076 billion compared to Rs1,130 billion in the three previous years (rials).

13. Shah interview with Amir Taheri, *Kayhan*, 25 October 1976.

## 2

## THE GROWTH OF URBAN IRAN

Were it not for the plane trees one might overlook Tehran as one would a sleeping crocodile on the banks of the Nile. The city is of the colour and of the material of the plain. It is a city of mud in an oasis of plane trees.<sup>1</sup>

This was the opinion of a Victorian traveller, one Arthur Arnold, who visited Tehran almost exactly a hundred years ago. Now Tehran cannot be overlooked simply because it is such a vast sprawling urban agglomeration. Yet it remains an undistinguished city. The all-embracing bleached brown of the Varamin Plain still merges with the city at an ill-defined point — except now the city has spread further out and is discernible by a murky pall of pollution.

There are no kind words to be said for modern Tehran. The architecture is unbelievably shabby, the materials look cheap and speculative, and the finish is uniformly shoddy. Superficially, little suggests personal or national wealth, not even vulgarity: merely that hundreds of rapacious property speculators have been allowed a free reign, abusing what is left of the natural environment. Then over the façades of marble, brick and glass, polluted dust has produced a matt grey monotony.

A town plan exists, but buildings have spread in anarchy. The city has developed so fast that essential utilities are either unable to cope or under tremendous strain. The telephone system is hopelessly overloaded. Subscribers have increased so fast that there is no official telephone directory. Tehran has the dubious distinction of being the only large capital city to be without a proper sewage system. The entire city relies upon individual wells sunk beneath each building which absorb the liquid into the soil. The system worked well with a population of 1 million but now it is over 4 million and the sewage is pushing up the water level in the southern part of the city so that it is only one metre below the surface.<sup>2</sup> Tehran is now so large that it will take at least 30 years to install a proper system of piped sewage.

The human scale, epitomised by the covered Bazaar, has been completely submerged. Traffic has taken over the city like an army of ants a piece of discarded food. The road network has been obliged to accommodate over 1 million trucks, buses and cars when it was conceived for half this flow. Traffic fumes are pouring 500,000 tons of carbon monoxide into the city's atmosphere every year, causing a high level of pollution.<sup>3</sup> The public transport system is creaking

under the strain of trying to carry 2 million passengers a day. There is no train service, only buses and taxis. The municipality has 2,600 buses but a minimum of 30 per cent are out of action each day being repaired. The average waiting time for a bus, combined with travelling time, is reckoned to be four hours a day per person.<sup>4</sup> To cover the 86 square miles of the city, people where possible use private cars or shared taxis. On average most of the working population waste a minimum of two hours per day in traffic. Traffic congestion has become so much a way of life that Tehranis are proud of it – one suspects that it is a primitive pride over the car being a symbol of modernism. But it is a brutalising environment, which, over twenty years, has damaged the quality of life and eroded those values the Iranians considered so important – politeness and hospitality – and encouraged aggression and selfishness.

Though bemoaning the woes of their capital, Iranians are quick to point out that 'Tehran isn't Iran.' This is an indirect way of saying that Tehran is atypical – in the rest of Iran, and above all else in the countryside, the 'true' Iranian exists who still has a contact with the past and has a proper understanding of the order of things. Unfortunately this is a sentimental delusion.

Tehran is not typical of Iran, nevertheless it *is* modern Iran. Ever since the mid-twenties when Reza Shah began to strengthen the hand of central government, Tehran has reflected the aspirations of modern Iran. Therefore, rather than dismiss Tehran as atypical, it must be regarded as the essential product of modern centralised Iran. To a greater or lesser degree other cities in Iran are following its example, often unconsciously. Tehran itself is perhaps ten years – and in some instances fifty years – ahead of the rest of the country.

### **The Growth of Tehran**

Tehran, literally 'warm place', became the capital of what was then Persia at the turn of the eighteenth century under the first of the Qajar kings, Agha Mohammed Khan. Under the Qajars Tehran remained essentially a large walled city built of mud brick, and centred round the covered Bazaar and its accompanying mosques.

In 1900, Tehran was just beginning to distinguish itself from the other major cities of the time – Isfahan, Tabriz, Shiraz – by being the first to possess some of the attributes of the industrial world. Tehran had acquired the only railway in the country – a total of eight miles of single-metre track operated by a Belgian company, primarily designed to go to and from the shrine of Shah Abdul Azim.<sup>5</sup> It also had a small Russian-financed tramway. It further boasted the only electric power

generating plant which doubled up as the energy supplier of a private brick plant to which it belonged.<sup>6</sup> By 1910 the capital's inhabitants could witness an automobile – it belonged to the ruler, Ahmad Shah, but never went more than walking pace as it was accompanied by foot servants.<sup>7</sup>

At this time Iran's population was predominantly rural, with a high proportion of nomads. Tribalism was strong and the nomadic tribes accounted for almost 25 per cent of the total population.<sup>8</sup> One medium estimate of the country's total population was 9.8 million.<sup>9</sup> Of these some 20 per cent lived in 100 towns of over 5,000 inhabitants. Tehran itself had no more than 200,000 inhabitants, virtually the same as Tabriz, roughly 2 per cent of the country's total population.<sup>10</sup>

Even in 1919, when the last Shah was born, Tehran was still a walled city surrounded by a dry moat. The only entrance was through the city gates which were closed at night 'to keep out robbers and cut throats'.<sup>11</sup> When Reza Shah knocked down the city walls some six years later, this action was considered symbolic of his determination to modernise Iran.<sup>12</sup>

Once Reza Shah began to exert central government control throughout the country and improve road and rail communications, including his famous Trans-Iranian railway, the exodus to Tehran started. By 1939 Tehran had a population of 540,000.<sup>13</sup> The process was accelerated by the Second World War and the presence of Allied forces in Iran, and by the gradual increment in oil revenues. People were attracted both from other cities and from rural areas. Between 1900 and the first census in 1956 Tehran absorbed 60 per cent of the total internal migration of 1.76 million.<sup>14</sup> Between 1960 and 1970 Tehran's population increased at roughly 6 per cent a year to reach 3.2 million – this was over double the national average. By the time of the next census in 1976 the growth rate had slowed to around 4.2 per cent a year; but in fact people were merely settling further outside the city, especially at Karaj, 40 kilometres away, where the population was increasing by 12 per cent a year.<sup>15</sup> A survey conducted in 1975 by the University of Tehran concluded that if the population continued unchecked it would reach 16 million in twelve years.<sup>16</sup>

Tehran is now the undisputed focus of political, administrative, economic, social and cultural life. The industrial capacity of Tehran accounts for 51 per cent of all manufactured goods produced.<sup>17</sup> Out of sheer convenience the main non-oil industries, particularly the automotive sector, preferred to establish round Tehran. Thus the city's industrial work-force represents 22 per cent of the country's total.<sup>18</sup>

The burgeoning bureaucracy created to govern a country of 34 million people has continued to be centred in Tehran. One-third of all government employees are based there. Over 60 per cent of the country's student population is being educated in Tehran. Roughly 50 per cent of all doctors are located in Tehran – put another way, half the country's doctors serve 11 per cent of the population.<sup>19</sup> Even relatively simple medical needs like X-rays often cannot be carried out in the provinces because there are no qualified personnel to operate the facilities.

Tehran is also much richer. Land, the main source of new private wealth, is considerably more expensive in the capital. With the exception of the Caspian coast, land values in Tehran average twice those of other cities. Between 1970 and 1976 the Tehran municipality issued 45 per cent of all the building permits issued for large cities.<sup>20</sup> Moreover the average floor space was double that of other cities. Though hard to quantify, it is almost certainly true that the average wealth of all strata of society is substantially greater than in other cities. It is the first city to show a sizeable middle class in Iran. Middle-class wealth is reflected in car ownership and foreign travel. Approximately one in every ten persons possesses a car in Tehran, outside the capital one in ninety.<sup>21</sup> As many as 70 per cent of those travelling abroad, excluding those who go on religious pilgrimages, live in Tehran.<sup>22</sup>

Culturally, too, Tehran dominates. Although the number of cinemas in the provinces has increased considerably, 25 per cent of the country's 460 cinemas are still located in Tehran and Tehranis account for 40 per cent of the total cinema-going public.<sup>23</sup> Newspapers are very little read outside the capital. One estimate is that of 820,000 copies printed daily, only 20,000 are read outside the capital. Printing itself is heavily concentrated in the capital, with 72 per cent of Iran's 180 printing presses in Tehran.<sup>24</sup>

Thus those who live in Tehran have the chance of better access to education, health facilities, the media, jobs and money – to say nothing of access to the decision-making processes. Not surprisingly people in villages or other towns are prepared to come to Tehran in the hope of a better life, ignoring the problems of high rents, overcrowding and pollution.

### **The Design of Tehran**

Like an archaeologist's trench, the city's growth can be traced in a series of parallel lines up the slopes of the Alborz Mountains. The Bazaar area in South Tehran represents the old centre, where behind the brick and



marble facades of recent building are a mass of confused narrow lanes with mud brick houses. This still represents one-third of the capital's land area – and half the population live here. Immediately above the Bazaar and next to the Golestan Palace (a monument to Qajar decadence now used for visiting heads of state) stands Reza Shah's break with the past. Iran's first modern Ministries, styled, one suspects, after Mussolini's new administrative city on the outskirts of Rome or Atatürk's Ankara. Above these the first modern shopping area of 'Istanbul' was established by the more enterprising merchants for richer clientele – now this has become the better shopping area for the masses. On the same parallel too a new royal palace, the Marble Palace, was built surrounded by the city's most fashionable housing. This has now become a museum and in the early 1960s, the Shah moved his residence up the hill followed by all but a few of the rich families, who allowed their properties to be developed for multi-storey apartments for those aspiring to leave the Bazaar area. Further up town, above the first foreign embassies established like those of Britain and Russia (which stand in huge imperial compounds), the prestige offices of the post-war era on Shah Reza Street were established. The subsequent demand for office space has dragged the commercial area further up hill, some 2 kilometres from the Bazaar.

Further above this an entirely new commercial and administrative centre for the city began to be developed on formerly barren hills. The foundation stone for this huge urban undertaking, Shahestan Pahlavi, was laid in August 1975.<sup>25</sup> To complete it will take a minimum of fifteen years though its fate now is doubtful since it represents the final break with the Bazaar as the hub of urban life. Above Shahestan – and beyond the worst of the pollution – live Iran's rich. Mountain retreat villages, rural communities and vacant lots have been absorbed in less than fifteen years into a vast dormitory of hurriedly built villas for the new élite. Perhaps appropriately above all this, back to the mountains, are the royal palaces of Saadabad and Niavaran. The Tehran of the Pahlavis thus constructed a social pyramid that reflects geography and the political hierarchy.

The social contrasts in this pyramid are extreme and becoming more minutely stratified. Moreover, as problems of circulating within this agglomeration increase, contact between social groups diminishes. From living among the masses, the bourgeoisie is now seeking to insulate itself. The urban masses for their part have acquired a sullen resentment and envy of their superiors. The only equaliser has become a universal level of discontent: a discontent exacerbated by the city's rapid expansion and a romanticised memory of their previous life-style.

### **The Dual Society . Urban v. Rural**

The larger cities like Ahwaz, Isfahan, Shiraz and Tabriz have already begun to show some of the same symptoms. The causes are the same — sudden influx of migrants, overloading of existing facilities, insufficient personnel for municipal administration and unchecked property speculation. These towns are attracting two types of person: those who live in surrounding villages and people after specific jobs, skilled and unskilled. Construction — the main urban industrial activity — attracts those people from the traditionally poorest groups like the Kurds, Turks, Arabs and Baluchis.<sup>26</sup> These people are now going to the provincial cities because they are expanding fastest. Isfahan with its enormous Aryamehr Steel complex, petrochemicals, refining industry and military ordnance factories, Shiraz, a major army and air force base and the home of an expanding electronics industry, Ahwaz, the centre of the oil industry and an important future steel-producing area, Tabriz, the centre of Iran's heavy engineering industry. The annual population growth rate in these four towns between 1966 and 1976 never fell below 3.8 per cent.<sup>27</sup>

The attraction, moreover, is not just towards larger cities. Iran now has 365 towns of over 5,000 inhabitants. The urban population is 46 per cent of the total and it is increasing at three times the rate of the rural population.<sup>28</sup>

This is an exceptionally fast switch for a traditionally rural society. The International Labour Office commented in 1973

In the 1960s rural-urban migration transferred 400,000 job seekers to the towns from rural areas. This is a normal trend in a rapidly growing and industrialising country. However, it was perhaps more rapid than was economically necessary and socially desirable.<sup>29</sup>

This observation was made *before* the massive injection of funds from the 1973 oil price rises. The ILO showed equal concern over the growing gap between urban and rural incomes.

The ratio of urban to rural income per head is estimated by the Plan Organisation to have increased from 4.6:1 in 1959 to 5.6:1 in 1969. The accuracy of these figures may be questioned but the reality of the gap and the direction of the move are not widely disputed.<sup>30</sup>

A more recent and cruder survey estimated that an urban family spent

twice as much each month as a rural family. Underneath all this is the inescapable conclusion that the modernisation of Iran has created a dual economy - a dynamic urban sector and a stagnating rural one.<sup>31</sup>

The contrast in life-style and living standards between town and country is as extreme as that between north and south Tehran. Rural Iranians still live in villages where 90 per cent of the houses are of mud brick. The 1976 census found there were 65,000 villages, of which only 18,000 had more than 250 inhabitants.<sup>32</sup> This gives Iran one of the most fragmented of rural populations anywhere in the world.

The backwardness of the countryside and the fragmentation of the rural population into small communities is an essential product of an exceptionally harsh environment. The peasants have suffered continuously from the vagaries of the elements and the despotism of governments. Over the centuries the villagers have acquired nothing but distrust for government and government officials whose interest was rarely to help and always to take money. Observing the situation in the province of Bushire a hundred years ago, Arthur Arnold remarked:

That government [of Bushire] is free to extort all that it can get, upon condition of making a certain annual payment to Tehran. The consequence is that the entire province is kept in perpetual disorder by the demands of armed men, who plunder under the pretence of taxation, and who, by the peasantry, are scarcely preferred to robbers.<sup>33</sup>

Not surprisingly the peasants had little interest in making their holdings look too prosperous and, where possible, constructed their communities in the least accessible places. Iran's rugged mountainous geography encouraged them to do this.

With the exception of the Caspian coast and a few limited areas rainfall is scarce, water hard to obtain and soil poor. Thus there were very few places with sufficient resources to support large communities - usually restricting villages to groupings of 50 inhabitants, and encouraging nomadism. The 1966 census found 21,000 villages with less than fifty persons.<sup>34</sup> In times of good harvest the rural communities prospered; but when the harvest failed the border-line between survival and starvation was very fine. The isolation and inaccessibility which protected them from authority and robbers proved an effective barrier to obtaining extra food from a surplus area. There was virtually no interchange of agricultural goods between regions until the late twenties. During the severe famine of 1925 a major breakthrough occurred in this

respect. The government decided to order 200 special trucks for famine relief to transport grain from surplus areas to those places worst affected.<sup>35</sup> This seemingly obvious solution, the idea of Dr Millsbaugh, an American financial adviser, had never been considered before — probably because of an ingrained indifference to what happened in the remoter corners of the countryside. The general cynical attitude was that if they were poor enough to starve they were not good for tax collection.

The most telling sign of backwardness in the rural areas today is the literacy rate. In a slow uphill struggle, the Literacy Corps, formed from students doing national service, has managed to penetrate to the more isolated rural areas. In the past eleven years it has established 15,000 schools covering 25,000 villages. By 1978 almost 65 per cent of the rural population of school age were in the programme. Yet in 1973 the ILO, examining the impact of the literacy drive, had this to say: 'Despite the remarkable achievement of the Education Corps [Literacy Corps] enrolment in primary education is only 39 percent in rural areas as against 90 percent in urban areas.'<sup>36</sup> Since 1973 the situation has not altered dramatically, and throughout Iran in the early seventies only 40 per cent completed primary education.<sup>37</sup>

This kind of poverty and backwardness does not disappear with the simple provision of funds to build roads, provide schools and install electricity, though of course money helps. It requires educated people to help, explain and convince. But at present the two worlds look at each other from opposite ends of the scale, and they are only close geographically speaking. A 'typical' peasant community can easily be located close to Tehran — a cluster of low mud brick houses with no piped water, no sanitation and no electricity; the inhabitants are too conservative to accept the formation of a government-sponsored co-operative, too wary to think again of buying a tractor because when it broke down the mechanic had already upped sticks and left for a job in town, and this restores a doubting faith in old values and old methods even when modern things are meant to be better.

The countryside then is not some quaint reminder of the past but a continuing and vivid example of the backwardness that exists behind the modernism of Iran. Little has been done to check the rural exodus, often one suspects because it was an easy way of encouraging peasants to enter the modern sector. Where action has been taken it has usually been undermined because rural incomes cannot match those of the towns. The Shah has held up the 'natural purity and politeness' of the farmer.<sup>38</sup> But this farmer leads a hard life, and, as the rural exodus shows, many prefer to trade in this purity and politeness for more

money and more opportunity.

## Notes

1. Arthur Arnold, *Through Persia by Caravan* (London, Tinsley Brothers, 1877), Vol. I, p. 204.
2. Information supplied to the author by experts from Sir Alexander Gibb, consultants (associated with Iran for many years). The situation is such that moderate rainfall or snow melting causes serious flooding in south Tehran.
3. *Tehran Journal*, 19 January 1977.
4. *Iran Almanac. Echo of Iran*, Tehran, 1977, p. 438.
5. Julian Bharier, *Economic Development in Iran: 1900-1970* (London, Oxford University Press, 1971), p. 15.
6. *Ibid.*, p. 16.
7. *Ibid.*, p. 195.
8. *Ibid.*, p. 19.
9. *Ibid.*, p. 3. Estimates went as high as 12 million and as low as 6 million. However, Bharier's estimate is the most scientific.
10. *Ibid.*, p. 4.
11. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1961), revised edition 1974, p. 51.
12. *Ibid.*, p. 51.
13. *Iran Almanac*, 1976, p. 87. By then Tehran had also attracted 51 per cent of Iran's total industrial units. See Fereydoun Firouzi, 'Industrial Activity and the Economy of Iran', *Iranian Economic Review*, Vol. I (1976), p. 11.
14. Bharier, *Economic Development*, pp. 28-31. See also *Iran Almanac*, 1977, pp. 369-72.
15. *Ibid.* Provisional data is only available from the 1976 census, Iran's third. Karaj was found to have grown from 44,243 in 1966 to 138,774 in 1976, the fastest-growing town in Iran. The next-fastest growth was at Bandar Abbas – 34,627 to 89,103 – despite the excessive heat and humidity. (Civil servants get a special hardship allowance there.)
16. *Tehran Journal*, 22 June 1975. Some 80 per cent were born outside Tehran. The survey also highlighted the unusually high male/female imbalance: 135 males to every 100 females. This is certainly the result of influx of 'temporary' single male construction workers.
17. *Iran Almanac*, 1976, p. 87.
18. *Financial Times*, 28 July 1975.
19. *Kayhan International*, 8 March 1976. See also *Iran Almanac*, 1976, p. 360.
20. Bank Markazi annual report, 1975/6, p. 97.
21. *Financial Times*, 28 July 1975. The figure in 1975 for Tehran was 1 car per 19 persons. This has been adjusted to account for new registrations, some of which are government cars. See *Kayhan International*, 1 February 1976 and *Iran Almanac*, 1977, p. 302. About 51 per cent of new registrations are in Tehran, 40 per cent in other large towns and 9 per cent in small towns.
22. Author's guesstimate based on conversations with travel agents and airline officials.
23. *Iran Almanac*, 1977, p. 128.
24. *Ibid.*, pp. 135-6. Assessing newspaper readership from circulation is very difficult. Newspaper circulation figures are generally inflated; but readership, especially in the smaller towns and rural areas is probably underestimated since the readership ratio per copy is high, i.e. in a provincial town like Kerman there

could be eight readers per copy or more.

25. *Financial Times*, 20 August 1975. Shahestan Pahlavi is reputedly the largest underdeveloped urban area in the world. The land had been distributed, mainly by Reza Shah, to the military and comprised some 13,000 lots, which were bought up by the municipality for \$1.2 billion. There were attempts to turn the area into green space but the pressure to have an efficient administrative/commercial centre was too strong - based on author's conversation with Tehran Mayor Gholam Reza Nikpay, June 1975.

26. There are no studies on this, but this comment is based upon author's observations of labour in Tehran, other towns and in 'difficult' working areas like Bandar Abbas.

27. *Iran Almanac*, 1977, p. 372.

28. Bharier, *Economic Development*, p. 27. See also *Iran Almanac*, 1977, p. 370.

29. International Labour Office, *Employment and Income Policies for Iran* (Geneva, International Labour Office, 1973), p. 24.

30. *Ibid.*, p. 25.

31. Firouz Vakil, 'Iran's Basic Macroeconomic Problems: A 20-Year Horizon'. This point was made politely but forcibly in the above paper presented to the Aspen Symposium at Persepolis in September 1975. (See *Iran. Past, Present and Future* (New York, Aspen Institute for Humanistic Studies, 1976), pp. 90 and 101).

32. *Iran Almanac*, 1977, p. 415. See also Bharier, *Economic Development*, p. 32. Also *Iran Economic Survey*, No. 138 (28 June 1977). This report contends there are nearer to 85,000 villages.

33. Arnold, *Through Persia*, Vol. II, p. 216.

34. ILO, *Employment and Income Policies*, p. 25.

35. Arthur Millspaugh, *The Financial and Economic Situation of Persia 1926* (New York, 1926), p. 10. Also see Bharier, *Economic Development*, p. 85. Bharier contends that the success of the Millspaugh scheme helped to raise the population growth.

36. *Ibid.* The Literacy Corps teaches roughly 12 per cent of all primary school-children and provides 17 per cent of the primary schoolteachers.

37. *Ibid.*, p. 69. See also *Iran Almanac*, 1977, p. 406. Of Iran's female population over 10 years old approximately 30 per cent are literate. In the rural areas the percentage is lower.

38. *Kayhan International*, 25 October 1976.

# 3

## OIL AND THE IRANIAN ECONOMY

Because of our huge petroleum output people commonly think of Iran as being primarily an oil producing country. But that is a mistake. For thousands of years we have been primarily an agricultural country, and we still are.<sup>1</sup>

Few foreign banks were anxious to lend money to the Shah at the turn of the century. Their reluctance was not surprising: the risk was high and the country had few resources to guarantee a loan. When the British-owned Imperial Bank agreed to lend money there were only two assets that fitted the necessary criteria of being easy to sell and easy to seize – the customs dues of the Persian Gulf ports and the caviar-producing Caspian fisheries.<sup>2</sup> Such humiliating terms may seem a far cry from the groups of foreign bankers lobbying the Iranian government for business since the 1973 oil price rises. But humiliating terms then were the price imposed on a weak government and a poor country.

The behaviour of the two dominant powers, Britain and Russia, was eloquent testimony to this state of affairs. Regarding the country in almost exclusively strategic terms, they acted with the kind of muscle and self-interest, particularly in the case of the British, that typified the zenith of imperial power. Britain's chief concern was to foster a pliant pro-British régime that would act as a 'neutral' buffer to Russian expansionism and protect the western flank of the Indian empire. The Russians for their part mistrusted the spread of British influence beyond India and sought to have the country pro-Russian. In neither instance was the country's economic potential considered worthy of much attention.

Imposing mountain ranges (the Alborz to the north, the Zagros on the western flank), high plateaus and bleak deserts created formidable natural barriers. More important, Iran was not a convenient land route to India. Nor were its ports in the south a convenient stopover for Europe-India trade. (It took longer to reach the port of Bushire than Bombay from England.) Strategic interests were the only concern, the most important being the cable link between London and India operating since 1865.<sup>3</sup>

The telegraph line, operated by the Indo-European Telegraph Company, was one of several concessions granted to foreign interests either as a result of strong external pressure or powerful financial inducements – often a mixture of the two as the British government pressed the case

of those seeking concessions that might suit British interests. In the last years of the Qajar dynasty, its rulers were keen to mortgage or pawn whatever was available to obtain ready cash.

The most spectacular concession was one negotiated on behalf of the naturalised British subject, Baron Julius de Reuter (founder of the news agency of that name) in July 1872. Reuter acquired a seventy-year concession on exclusive rights throughout the country for tramways, mining, irrigation, water works and exploitation of the state-owned forests. In addition he gained a monopoly over the Customs plus promises of first option on any further concessions.<sup>4</sup> All this was for a £40,000 performance bond to be forfeited if work on a railway did not begin within fifteen months. The Shah was guaranteed 20 per cent of the railway's profits and 15 per cent on all other Reuter activities. For a country Iran's size this was probably one of the most far-reaching concessions ever granted by a ruler. Not surprisingly, it provoked bitter opposition at home that led to its speedy cancellation by the Shah, and its replacement with a lesser concession – exclusive banking and mining rights for sixty years.<sup>5</sup>

The mining company liquidated itself after three years' fruitless prospecting. The banking concession prospered on the other hand, in the guise of the Imperial Bank. On the whole, neither the local economy nor the foreign speculators benefited significantly, and the main impact was at the political level where the ignominious terms conceded by the rulers aroused national consciousness. In fact international interest in Iranian concessions was so low that in 1900 when an oil concession was touted around European capitals there were few takers.

It was left to an enthusiastic young Englishman, William D'Arcy, who had been fired by the success of a gold-mining venture in Australia. In May 1901 D'Arcy negotiated a sixty-year concession with exclusive exploration, production and oil-refining rights over an area of 480,000 square miles – the whole of Iran except the five northern provinces. In return for the oil concession he agreed to pay £20,000 cash plus a further £20,000 in paid-up shares of the first company organised to explore oil in Iran. On the company's net annual profits, Iran would receive further a flat royalty of 16 per cent.<sup>6</sup> The search for oil was exceptionally difficult and after three years D'Arcy was obliged to approach Burmah Oil for funds, having spent £200,000. Burmah agreed to step in with the necessary capital and the search continued.<sup>7</sup>

Just when everyone was beginning to despair of success, oil was struck north of Ahwaz near Masjed-Suleiman. It was 26 May 1908, and oil had been discovered for the first time in the Middle East.<sup>8</sup> The



impact of this discovery was felt only slowly; and at first more by Britain than Iran. The formation of the Anglo-Persian Oil Company (APOC) in 1909 and first production in 1912 was a major factor in deciding the British Admiralty to switch from coal to oil on the eve of the First World War.<sup>9</sup> Also, because Winston Churchill as First Lord of the Admiralty wanted Britain to own directly at least part of the nation's oil needs, this led to the purchase of a British government stake in APOC.<sup>10</sup> For the time being Iran just happened to be the country where the oil was discovered, and was treated little more than an ignorant, but important, shareholder who had to be humoured from time to time.

### **Oil: The Backbone of the Economy**

Typical of the prevailing cynicism was a letter written by Lord Curzon. Writing to the Secretary of State for India, he said: 'I advise you therefore not to think that the industrial regeneration of Persia is going to make a new start in Mr D'Arcy's hands.'<sup>11</sup> Although subsequent history was to prove Curzon so wrong it did take Iran a long time to benefit seriously from D'Arcy's discovery.

Initial revenues were small. Between 1911 and 1919 Iran received a mere £335,000 in royalties; and in the next ten years annual income averaged just over £1 million.<sup>12</sup> In 1933 a new agreement was signed which rewrote the old D'Arcy concession, reducing it in size (by almost a quarter) and altering the system of payment. Instead of being paid 16 per cent of net profits, Iran received a fixed sum of four shillings per ton of oil sold. This agreement was made to look as though it were a big step forward in Iran's favour, even flattering the sensibilities of Reza Shah by renaming APOC the Anglo-Iranian Oil Company (AIOC). But the Iranians were quickly disenchanted.<sup>13</sup>

Hopes of a rapid revenue increase were dashed by the depression in the 1930s and the new agreement produced direct receipts of under £2.5 million a year. In part this was compensated by the advent of the Second World War and the strategic importance of the oilfields to the Allied war effort. Iran was guaranteed a minimum annual return of £4 million.<sup>14</sup> But this was at the expense of national pride, because in order to safeguard the oilfields and the Eastern supply routes, Allied forces occupied Iran on 23 August 1941. Moreover it was only towards the end of the war that production and revenues began to surge ahead. By 1950, just prior to nationalisation, production was running at 31 million tons and direct revenues at £16 million -- quadruple the amount of ten years back.<sup>15</sup>

The only previous precedent to oil nationalisation had been in Mexico

in 1938. This had been a failure. Though more eventful, the Iranian experience was just as abortive. The decision to nationalise AIOC's operations in May 1951 was not a carefully planned move. Rather it was the inevitable consequence of the Prime Minister, Mohammed Mossadegh, using the nationalisation issue for internal political reasons to attack the Pahlavi dynasty.

An oil company executive in Iran at the time later observed: 'When the majles [Parliament] passed the bill nationalising oil, they simply thought it meant channelling profits which they exaggerated into the national coffers. No one had any real idea what nationalisation meant or entailed.'<sup>16</sup> Nationalisation meant operating the oilfields, running the sophisticated Abadan refinery and marketing both crude and refined products in the international market. Since expatriate personnel ran all key functions of the industry and marketing was an international cartel of the oil companies, Mossadegh was powerless once personnel were withdrawn and both AIOC and the British government decided to block the sale of Iranian oil.

In purely economic terms the net result of the abortive nationalisation attempt was disastrous. From 1951 until 1954 the Iranian oil industry virtually closed down. Iran forfeited its position as the leading producer of oil to boost their own production. Iran's first attempt at planned economic development was completely undermined; and as a result over a quarter of the funds in the Second Plan (1955-62) went towards completing projects unfinished or not initiated in the First Plan.<sup>17</sup> Iran was also left in a very weak bargaining position *vis-à-vis* the oil companies.

Under a new agreement signed in August 1954 Iran could only obtain a fifty/fifty division of profits, and, in return for sovereignty over certain non-essential operations like health, had to compensate AIOC very substantially for losses. Part of the agreement was the disbandment of AIOC but less in response to Iranian sensitivities than pressure from US and other international oil groups keen to obtain a share of the rich Iranian oil operation. The new company became known as the 'Consortium' comprising the seven major oil companies (the Seven Sisters) with BP holding the leading stake of 40 per cent.<sup>18</sup>

Unknown to Iran, the Consortium members worked out a secret agreement among themselves over the future level of production from Iranian fields. Iranian production was to be balanced against the global oil interests of the major oil companies so that any increase in production was the result of an internal agreement and Iranian revenues were entirely dependent upon the level at which the Consortium chose to

produce. Details of this agreement only leaked out in 1967.<sup>19</sup>

The only way in which Iran could assert its independence and maximise its potential oil resources was to form a national oil company, the National Iranian Oil Company (NIOC), and with this new company, to carry out joint exploration and production agreements with the smaller and independent international oil companies. The first such deal was in 1957. Enrico Mattei, the individualistic head of Italy's state oil concern ENI, concluded an agreement whereby NIOC would get 75 per cent of the proceeds on discovery of oil. The fact that Iran could obtain such terms through negotiation – and with the foreign partner bearing all exploration costs – was a revelation. This was the first of the so-called 'new style' oil deals among the oil-producing nations, and it was to have an important catalytic effect in the creation of OPEC. Unfortunately for Iran, this and subsequent similar agreements failed to strike oil on the scale of the Consortium area.

With increased militancy within OPEC, Iran's bargaining position slowly improved in relation to the Consortium. By 1970 world demand for crude oil was beginning to place the oil producers in a seller's market. The changed circumstances were symbolised in the Tehran Agreements on 14 February 1971 between representatives of the Gulf producers and the international oil companies. It was a complex agreement that for the first time sought to compensate the producers for loss of purchasing power through inflation and dollar fluctuations. In money terms it meant a major 30 cent per barrel increase rising over a five-year period to 50 cents. Finally Iran was able to rely on oil as a principal source of revenue. Between 1970 and 1972 production increased from an average of 3.82 million barrels per day to 5.02 million barrels per day and revenues from \$1.12 billion to \$2.39 billion.<sup>20</sup>

It was now only a matter of time before Iran could carry out, albeit through negotiation, what Mossadegh had failed to do unilaterally – full control of the industry. This was achieved on 20 March 1973, in an agreement whereby the Consortium handed over all remaining operations and ownership to NIOC. The Consortium agreed to form a special contracting company, Oil Service Company of Iran (OSCO), to provide the much needed expertise to run and assist in the development of the Khuzestan Fields – an area slightly smaller than the original Consortium acreage. This contractual support was particularly important since NIOC counted on not only raising production but on investing in major secondary recovery procedures like gas injection to prolong the life of the oilfields. The Consortium agreed to contribute 40 per cent of these heavy investment costs. In return, a new interdependent relationship

was established, with the Consortium guaranteed certain quantities of crude oil and refined products at a discount of 22 cents per barrel. In effect the Consortium was still being asked to act as the marketer of Iranian crude; but on the basis that this role gradually diminish as NIOC developed its own markets.

However, a combination of international market conditions, the cost of Khuzestan development and changes within OPEC's pricing structure had by the end of 1975 rendered the more important clauses of this agreement obsolete. In practice NIOC marketed much more crude than laid down in the agreement: it was over 45 per cent above quota in 1976 and 30 per cent in 1977. The Consortium for its part lifted less crude than anticipated, and according to NIOC, less than contracted. In 1975 NIOC claimed that failure by the Consortium to meet its obligations led to a shortfall in revenue of \$2.7 billion.

This created considerable acrimony at the time. NIOC argued that the companies had a binding obligation to buy; they in turn claimed that market conditions had so altered as to make the agreement inoperable. In addition the companies were concerned at their investment commitments which had been rising sharply and in 1975 stood at \$360 million. In October 1975 the Consortium froze all further investment payments pending renegotiation of a new agreement. These frictions led to a maturing of attitudes on both sides, assisted by NIOC's realisation that it could sell more oil than anticipated. Since April 1976 there has been general acceptance that a new contractual agreement be made on the basis of a management fee to be paid in the form of a discount on crude bought by the companies. But the differing crude needs of the companies, especially the American majors whose stake in Aramco in Saudi Arabia had to be taken into account, complicated the conclusion of a new agreement.<sup>21</sup>

These latter problems with the Consortium emphasise the dominant theme that has persisted throughout Iran's possession of oil. Oil income has been a constant variable. Since 1912 income has followed a slow historic curve upwards which accelerated in the 1960s. But it has been rare indeed for the government to receive the amount of oil revenue anticipated in any one year. The disruptions were greatest in the First and Second Plans as a result of nationalisation. Latterly the variable has been on the plus side. For instance the Fourth Plan (1968-72) would have run up against serious financial difficulties had there not been the Tehran Agreement in 1971 sharply raising prices.

Moreover, as oil revenues increased and the economy became more dependent upon them, the inherent threat of lower oil revenues became

potentially more damaging. For instance the Third Plan (1962-7) was 62 per cent dependent upon oil revenues; the Fourth Plan (1968-72) 63 per cent dependent.<sup>22</sup> By the time of the revision of the Fifth Plan (1973-8) following the 1973 oil price rises, the dependence had risen to over 80 per cent.

Despite such growing dependence, the oil industry's structural impact on the economy was strictly limited. Until the mid-1960s its impact was almost exclusively financial. Just prior to nationalisation the industry employed 50,000 men, the largest industrial payroll in the country, but under 10 per cent were salaried staff and no Iranian held a key managerial position. The oil company, AIOC, was entirely self-contained and enjoyed special import concessions.<sup>23</sup> The Iranian government was never kept fully in the picture and had no access to the company's books. The Iranians suspected for instance that AIOC deliberately paid low dividends to avoid having to make extra dividend payments to the government.<sup>24</sup> AIOC in short followed the classic pattern of a multinational. Even when the industry began to have a stronger Iranian content and became more integrated, its technology and the capital-intensive nature of the operation tended to keep it in an isolated 'modern' sector.

### **Agriculture: the Poor Cousin**

Without oil, Iran today would still be a rural economy little wealthier than Egypt. Agriculture has been, and still is, the means by which the majority of Iranians derive a livelihood but it has few attractions as a way of life. The chief handicap has been lack of water. Throughout the country rainfall averages 300mm to 350mm a year; but this is unevenly distributed with the lush subtropical Caspian coast receiving the highest and the vast arid central and eastern plateau the lowest. Insufficient water supplies have restricted the amount of land brought under cultivation, affected the type of cultivation and in many regions can mean disaster in a low-rainfall climate that is both very hot in summer and very cold in winter. Crop management is made difficult by higher summer soil temperatures, while winter frost rules out double cropping in many places.

The ancient poets who wrote about rose gardens flowing with water to the sound of nightingales gave a misleading picture. Iran for the most part is arid and unproductive. Approximately half the total land area of 164.8 million hectares (628,000 square miles) supports no cultivation of any sort. Two bleak stony deserts – the Dasht-e Lut and the Dasht-e Kavir – eat into central and south-eastern Iran, covering one-sixth of

the entire country. These deserts have the reputation for being the least life-supporting in the world. The remaining land area is split: 25 per cent town, villages, roads and surface water; 13 per cent potentially cultivable and productive land; and 12 per cent forests.<sup>25</sup> Thus only 22 million hectares of the total land area are capable of exploitation for agricultural purposes; and of this under 8 million hectares is being cultivated.

A highly evolved system of underground channels, known as *qanats*, has been the traditional means of exploiting ground water. These channels, constructed in soft alluvial soil, and up to 50 km long, bring water from the foothills to cultivated areas relying solely on the gradient. The great advantage of the *qanat* system was that the channels could be built at times of surplus rural labour. Roughly one-third of all irrigation as late as the early 1970s relied on *qanats*. However, with the rural exodus and the increase in labour costs, *qanats* have suffered seriously because they are labour-intensive and require constant maintenance. As a result, a quarter of the *qanat* system has become inoperative through lack of repair.<sup>26</sup>

This traditional system also failed to retain the winter rains and melting spring snow. Only with the advent of modern dam-building in Iran (the first was completed in 1957) was water wastage reduced and supplies made available for large-scale irrigation. At present roughly 4.5 million hectares of land are capable of being irrigated; but only 70 per cent has the necessary infrastructure, and less than 30 per cent is being properly watered. However, even with irrigation Iran's problems are not solved. The poor nature of the soil means that over-irrigation can produce damaging high salinity.<sup>27</sup>

The convenience with which the opium crop fitted into the cycle of Iran's water supplies was one of the principal reasons why cultivation of the poppy was so important. The crop was sown in the winter and harvested in spring. Opium was also highly profitable and allowed the farmer to have a different summer crop. Up until the late 1920s when vigorous national and international measures were taken to curb opium production in Iran, Iranian farmers were producing 30 per cent of the world's production (measured in morphine content). The crop also provided as much as 15 per cent of export earnings and accounted for 10 per cent of tax revenues.<sup>28</sup> The crop is now grown under strict control for domestic medicinal needs. Yet an important proportion of the adult male population are still opium users. In 1976 the police arrested 14,453 persons under anti-narcotics laws and there were 170,000 registered addicts.<sup>29</sup>

Moves to reduce the area of opium cultivation were the first effort to

alter the structure of agriculture. The only other change of note until land reform began in 1960 was the shift in the pattern of Iran's nomadic tribes. At the turn of the century Iran possessed some 2.4 million nomads, a quarter of the entire population. Within fifty years this number had dwindled to under 500,000. Their economic importance lay in their possession of 70 per cent of the country's sheep and goats – the main form of meat, and significant source of cheese and yoghurt. The wool also supplied material for the carpet-weaving industry. In short the tribes were a central element in rural Iran. Their importance was reduced once Reza Shah began to settle them in an effort to bring them under the control of the central government. The larger and more powerful groupings like the Bakhtiari, Qashgai and Turkoman were a particular target. (The Bakhtiari controlled much of Khuzestan where D'Arcy discovered oil. His initial negotiations were with the Bakhtiari whose members provided the bulk of the oil industry labour.) But if Reza Shah is blamed – in some quarters he is bitterly condemned for his strong-arm methods, like the poisoning of wells – he merely accelerated an inevitable process.

Iran was largely self-sufficient in foodstuffs up to the early 1960s and could balance the deficit by exports of cotton, fruits (peaches and limes) and nuts. However, the diet was low-calory and used little red meat. After the 1973 oil price rise food consumption shot up, creating a substantial dependence upon imports.

Despite substantial outlays on agriculture in the first two development plans after the Second World War, the results were at best moderate with production increases reflecting an expansion of cultivable land, not improved productivity. The chief obstacle to productivity was the nature of land tenure. Approximately 54 per cent of total agricultural land was cultivated by sharecroppers utterly dependent upon the landlord. The nature of the sharecropping arrangement varied: for cash crops like cotton, the landlord usually took half the production while for wheat or barley the landlord could take up to two-thirds.<sup>30</sup> Holdings were small and generally fragmented; and even where a single owner possessed a large land area this was still often sublet in uneconomic parcels for fixed rent or let to sharecroppers. On one estimate, 50 per cent of all land prior to land reform was owned by absentee landlords.<sup>31</sup>

When land reform came, little thought was given to matters of improved performance from the agricultural sector. It was a political manoeuvre by the Shah to win over the rural masses and curtail the power of the big landowners. The first law, passed in April 1960, calling for the redistribution of all private holdings in excess of 400 irriga-

ted hectares, and 800 non-irrigated hectares, was poorly planned. It was hurried through without the compilation of a proper register of title and so provided loopholes to the landowners to retain more land.

This law was amended and on 9 January 1962 it was replaced by what became known as *the Land Reform Law*. Though still highly political in motivation the approach was more pragmatic. Holdings were not limited by size; and instead landlords could retain one village. Compensation was shrewdly fixed on the basis of taxes previously paid which meant that those who had underdeclared income in the past were caught out. Excluded from the law were 'mechanised estates', i.e. those properties employing wage labour, market gardens and tea plantations. The land went to tenant farmers and sharecroppers who were obliged to form co-operatives and repay the price of land over fifteen years. In the first phase some 16,000 villages covering 19 per cent of arable land were purchased by the government for redistribution.<sup>32</sup>

There then followed two more stages. In an effort to make redistribution more palatable to the landlord, five methods of settlement were offered: sale, division of land on the same basis as the old sharecropping arrangement, fixed tenancy, formation of a rural co-operative or purchase of the tenant's rights due under the law by the landlord. In many instances this new approach to reform merely formalised the existing *status quo*.<sup>33</sup>

The third phase, starting in 1967, was more concerned with tidying up the fragmented holdings created by the previous reforms. Small-holdings were grouped into co-operatives so that credit and direct government assistance could be used to greater effect. Yet this strategy also lacked serious planning in that there were not enough extension workers to spread around the large number of co-operatives. By 1973 the government was obliged to regroup the co-operatives into larger units, and by 1976 the early 8,450 co-operatives had been consolidated to 2,858.<sup>34</sup>

In spite of the political motivation for land reform, the first stage had a significant impact in the countryside. For the first time many farmers had the chance of entering the modern economy, although the measures were not comprehensive. They ignored the problems of the poorest members of the rural community - the landless labourers who comprised as much as 25 per cent of the work-force. So in many cases the divide between those with land and those without was made more stratified and pronounced.<sup>35</sup>

A more fundamental criticism is that land reform was initiated too



late. By the time the measures were introduced and explained, the rural exodus had already gathered pace. (Two million persons had left the countryside between 1956 and 1966.) Mere ownership of title deeds, a novel concept itself among a conservative populace, was no incentive to remain on the land. Arguably the ones quitting the countryside were the most dynamic elements of rural society, leaving behind those least able to appreciate or exploit the new situation. The landlords were also able to retain in their entitlement the best lands with the best infrastructure (access to roads, electricity, etc.). Meanwhile from the peasant's point of view the change from absentee landlord as supplier of credit, seeds and fertiliser to an unfeeling bureaucracy was scarcely more rewarding.

But the real criticism of land reform was that it diverted attention away from the central issue of increased productivity. As a result of land reform over 40 per cent of title related to uneconomical holdings of 2 hectares and less.<sup>36</sup> By chopping a large portion of the country's potentially best arable land into inefficient smallholdings, land reform created in the new owner a luxury the country could ill afford to support. The only remedy was consolidation. Rural co-operatives apart, the government is employing three other methods of consolidation: agribusiness ventures, farm corporations and production co-operatives. In agribusiness the government buys up smallholdings and then rents a consolidated land area (usually over 5,000 hectares) to private or state-run companies. In the case of farm corporations land is consolidated by farmers exchanging their title deeds against shares in the corporation whose management is recruited and paid for by the government. In 1976 there were 85 such corporations with 32,506 shareholders.<sup>37</sup> Production co-operatives differ in that the farmer is permitted to retain title and these have proved more popular.

To ensure the success of land consolidation, the government embarked upon a scheme to assess the agricultural potential of the best lands. Under a Bill passed in June 1976, the best regions were divided up into a series of 'poles' (in an initial stage twenty were identified). All farms within these poles are to be combined into units of 20 hectares and more – the minimum considered viable for modern farming in Iran.<sup>38</sup> If the law is strictly observed, farmers who refuse to co-operate will have their land compulsorily purchased. However, before this stage is reached the government has to have completed detailed studies on these poles. In 1977 consultancy contracts had only begun to be let.

The combined effect of these measures has created a good deal of uncertainty about the direction of agriculture and government policy

towards it. This has been reflected in poor growth figures. Prior to 1973 production was officially said to have an annual growth of 3 per cent and to be now running at 6 per cent in fact a 2 per cent growth rate is more realistic.<sup>39</sup> Against this, consumption of foodstuffs is increasing at 12 per cent a year.<sup>40</sup>

Ironically the introduction of land reform coincided with the beginning of a sharp decline in agriculture's overall importance in the economy. Some claim that the Shah deliberately sacrificed agriculture in order to concentrate on building up an industrial base. In the period 1959 to 1972 agriculture received a mere 8 per cent of investment against 22 per cent for industry.<sup>41</sup> But this is a distortion. What happened was that, with the government's energy devoted to industrialisation, it lacked the will to follow through at a grass-roots level the unglamorous task of making land reform work. In purely money terms agriculture still received a sizeable sum.

### **Industry. Slow Diversification**

In 1947 a group of American consultants, Morrison Knudsen, were asked to submit a feasibility study on what was to be Iran's first attempt at planned development. Their advice was to concentrate on improving agriculture.<sup>42</sup> Sound advice perhaps, but Mohammed Reza Shah was committed to industrialisation. However there was little base to build on.

Reza Shah devoted most of his energies to opening up the country and never adopted a coherent attitude towards industry. Economics and industrialisation were inextricably bound up with political, nationalistic and strategic considerations. This was symbolised by the gargantuan project which is still held up today in Iran as one of his greatest achievements – the Trans-Iranian Railway. Connecting north and south Iran over a distance of 860 miles, the line took almost twelve years to build and was finally opened in 1938. It was a tremendous feat of engineering and human endurance, carried out under appalling conditions. Yet as Julian Bharier acidly comments 'There is no doubt that on almost any economic criterion the railway was ill-conceived.'<sup>43</sup> To lay each mile of track cost £35,000. The equivalent cost of a road link would have been a maximum £525 per mile.<sup>44</sup> A road could have achieved the same purpose, and besides the steep gradients made it impossible for trains to carry heavy loads and the aridity combined with extreme heat made it difficult to use steam locomotives.

The industries that flourished under Reza Shah were those which foreigners towards the end of the nineteenth century had tried to

introduce – matches, textiles, tobacco. Textiles were by far the most important. By 1939 there were already 40 mills (36 privately owned) satisfying half the demand for cotton yarn. In 1947 textiles accounted for 60 per cent of industrial employment and 70 per cent of installed horsepower.<sup>45</sup> Through the 1960s textiles retained their position as the largest industrial sector.<sup>46</sup>

Reza Shah's emphasis on centralisation concentrated industry round the capital. Against professional advice, he altered the siting of a proposed steel plant from Semnan to Karaj near Tehran. However, with the Allied occupation of Iran in 1941 the project collapsed, leaving in its wake 8,500 tons of unwanted equipment and Iran had to wait another 37 years before its first steel mill was operational.<sup>47</sup> In January 1966 agreement was finalised with the Soviet Union on the construction of a steel complex at Isfahan with an initial 600,000 ton capacity.<sup>48</sup> This formed part of the first major economic agreement signed between Iran and the Soviet Union but the plant was not operational until 1973. In the meantime the Shahryar Industrial Group in the private sector began operating a mill utilising scrap and imported billets in 1966.

The Soviet agreement was an historic turning-point. In addition to the steel mill, the Soviets agreed to build Iran's first machine-tool and heavy engineering plant at Arak and to buy Iran's first gas exports. Like Nasser and the Aswan Dam in 1955, the offer had come from a Communist country where Western experts had rejected the project. Iran was still at the stage where large-scale industrial ventures of this nature only held attraction as political investments and Western companies were loath to become involved. Not only were the Soviets cheaper but they also offered attractive soft credit (\$260 million over twelve years). Iran's choice of the Soviets and subsequent deals with Czechs and Romanians only highlight the change in its fortunes when oil revenues increased.

The most logical industrialisation was to expand the base of the oil industry and diversify into petrochemicals: a sector where Western companies were keen to participate, especially as the world petrochemical market was on an upswing. About the time of the Soviet agreement, three joint venture petrochemical projects were signed with American companies: a fifty/fifty export-orientated venture with Allied Chemical for ammonia, urea, phosphoric acid and diammonium phosphate; an LPG (liquid petroleum gas) plant for export on a fifty/fifty basis with Amoco; and a plant to produce PVC and detergents for the domestic market on a 26/74 basis with B. F. Goodrich.<sup>49</sup> The development of the

petrochemical and steel industries through newly formed state enterprises, or foreign joint ventures with state enterprises, accounted for almost 70 per cent of total industrial investment in the Third Plan (1963-7).<sup>50</sup>

During this period foreign investment, especially American, provided an important stimulus to the private sector in rubber, pharmaceuticals and construction.<sup>51</sup> The Fourth Plan (1968-72) envisaged greatly expanded industrial development with \$1 billion earmarked for public sector projects. Meanwhile the private sector extended its activities to the automotive field, food processing, and a range of secondary industries protected by high tariff barriers and restrictive import licences. Foreign investment in local ventures was often a means of getting round tariff barriers.

The accelerated pace of industrial development was reflected in the number of large units being established in towns throughout the country. In 1956 Iran possessed a mere 694 such units. By 1961 the number had increased to 1,191. This rose to 3,661 in 1966 and took a further leap in 1972 to 5,651. This represented an annual average increase of 44 per cent between 1956 and 1972. Half these plants consisted of operations in textiles and foodstuffs, but during this period the percentage of the industrial work-force employed in these sectors dropped from 77 per cent to 57 per cent, while the share of metal industries and machinery rose from 5 per cent to 20 per cent.<sup>52</sup>

Overall between 1959 and 1972 industry's share in GDP rose from 13.6 per cent to almost 20 per cent. During the same period agriculture fell back sharply from 30 per cent of GDP to 16 per cent.<sup>53</sup>

While these figures reflect the growing impact of industry on the economy, they give little idea of the problems involved in getting this far. Unlike many poorer countries that had been left a colonial infrastructure of communications and utilities, Iran started virtually from scratch. There was no trained industrial work-force and in most instances facilities such as power, water, approach roads and telecommunications had to be specially installed. The oil industry, for instance, developed its own separate communications network (as did the military later on). Building a factory was therefore an infinitely complex process, fraught with unforeseen problems. As a result the majority of plants were late in their start up and had high cost over-runs.

Because industry, bar textiles, was so late in starting, it had a long way to catch up with consumer demand. In the late 1960s, as government expenditure increased, the gap between consumer demand and local production widened. This gap further widened in the early 1970s

even though the number of new units coming onstream was exceptionally high. The result was piecemeal industrial planning based on immediate demand, rather than building a strong industrial base for a self-sustaining economy not dependent upon oil.

While industrial resources were stretched to the limit, it was difficult to measure efficiency. The high level of demand masked it. Alternatively, inefficiency was concealed behind monopoly or near-monopoly and high restrictive tariff barriers. The sole official yardsticks for the health of industry were growth and profitability. Iranian industry entered the 1973 boom highly profitable but only in rare instances well organised or soundly managed.

In fact it would have been difficult for industrialisation to have started earlier. Before the Second World War the economy was too backward and although the war and the presence of Allied forces occupying Iran helped to generate more income, the occupation was a disruptive influence until 1947. Third, the loss of income and the disruptions of the abortive nationalisation in 1951 delayed serious industrial development by at least eight years. Even when the Shah was in a position to concentrate more on industry he hesitated for political considerations. He is well aware of the inherent political dangers of creating an industrial proletariat with a potentially powerful means of expression, the strike. Trade unions had been banned and strikes outlawed in 1936 by Reza Shah. Nevertheless the presence of Soviet and British troops in Iran during the Second World War was the signal for a series of strikes.<sup>54</sup> The most effective were in the textile industry, allegedly fomented by the Tudeh (Communist) Party. In response to labour agitation, the Shah permitted the establishment in 1944 of a unified Trade Union of Iranian Workers. This was followed by a labour law in 1946 and another in 1949 laying down a 48-hour week.<sup>55</sup>

In the wake of the overthrow of Mossadegh, labour became one of the most politically suspect groups: not the least because of its suspected penetration by the Tudeh Party. This led to a purge of the unions, the banning of strikes and the introduction of an officially sponsored form of labour representation. A new labour law was introduced in 1959, later amended in 1965, with the aim of protecting worker's rights inside the factory as the price for removing all politics from trade unionism.<sup>56</sup> From then on discipline on the shop floor was reinforced by the extensive use of the SAVAK (the security police) and its agents, coupled with the presence of armed factory guards, often supplied on secondment from the army.

It is therefore no accident that industrialisation gathered momentum

in the late 1960s after the Shah had launched Land Reform, crushed all parliamentary opposition and curbed the industrial labour force.

### **The New Barons**

The people who emerged as entrepreneurs during this dynamic growth came from often simple origins. Traditional wealth from land tended to invest in real estate or services like banking. Economic development since 1920 had permitted a major consolidation of existing wealth, except where a family's land and assets were confiscated for political reasons. Moves by Reza Shah in 1927 and 1928 to establish proper title to urban land in the Tehran area allowed the major landholders to benefit enormously. Title had been acquired mostly by user or recognised royal gift and property delimited by fertile areas, i.e. landlords claimed to own as far as what could be watered. However, the shrewder families in 1927 delimited their land beyond what could be watered into the arid areas, so acquiring legal title to property which was not strictly theirs but which no one claimed. With the growth of the capital this land became very valuable.<sup>57</sup> Families like Farmantarmaian and Vossuq are said to have benefited in this way. Land Reform was also a boon to traditional wealth. It gave landlords liquidity and focused attention on urban property where values were infinitely greater. But new wealth acquired in this was not strictly entrepreneurial.

For the most part, the entrepreneurs graduated from trading operations in the Bazaar, frequently transferring from traditional commerce via a dealership or agency for one of the international companies. This usually required influence at Court and political pull, and as a result few could be called self-made men in a Western business sense. Some who achieved success through their own initiative were then drawn into the royal ambit and were used directly by the Shah to initiate specific industrial ventures.

Ahmad Khayami, who founded Irannational in 1962, which has become the biggest company in the automotive sector with one of the largest work-forces in the country, is an interesting example. Born in Meshed in 1928, he came from a traditional Bazaar trading background.

During the Second World War, I was in the export business selling dried fruits, and by the time the war finished I was bankrupt. So I established the first car wash service with a capital of Rs. 4,000. Within four years I became the representative of Mercedes Benz in my native province. I then left all my business to my brother and came north to Tehran, and 10 years after having this car service, I

was able to establish Irannational in Tehran. In the first stage we used to make buses, mini-buses and trucks by the trade mark of Mercedes Benz. By the order of the Shah I then started to make cars. As soon as I started making Peykans [a version of the Hillman Hunter using ckd units from Chrysler UK], I invited my brother to join me.<sup>58</sup>

Leaving the general running of Irannational to his brother, Ahmad Khayami moved into chain stores. He established the Kouroush Stores, the first attempt in Iran to introduce large-scale retailing. Again this move was made at the request of the Shah.<sup>59</sup> Then to provide direct supplies to the stores, he set up manufacturing facilities for clothing, branched into furniture production and agribusiness. Thus within one generation there has been a change from bazaar-type trade right into the heart of the modern sector of an industrial economy and the beginnings of a vertically integrated business.

Just as remarkable is the case of Habib Sabet. Born in 1903, he went out to work at 14 as an apprentice in a bicycle shop. With savings he was able to invest in a taxi and from his earnings he bought a second-hand army truck which was the basis for Iran's first road haulage company.<sup>60</sup> He subsequently was able to obtain the Volkswagen and Pepsi-Cola concessions and develop ventures with General Tire and Rubber, and Squibb. His business interests now cover almost 50 companies and employ some 10,000 people. He has also become one of the single richest figures in Iranian business, demonstrating this with an exact replica reconstruction in Tehran of Marie Antoinette's Petit Trianon at a reputed cost of \$15 million.<sup>61</sup>

There are other examples, too. The Melli Industrial Group of the Iravani family developed from one of the principal cottage industries of the bazaar - shoe-making. In a generation Melli has become the best-known brand name throughout Iran. The group is the most fully integrated of all private industrial concerns, owning its own tanneries and dyeing plants, in addition to possessing international outlets. However, the group has expanded so far beyond its origins that the hallmark, its shoes, is no longer part of the holding company's name. Melli is now involved in such diversified interests as food processing and international haulage. The biggest private group also progressed from simple bazaar activity. The Behshahr Industrial Group was formed by the Ladjevardi family in 1944 and was originally involved in the import of consumer goods, raw materials and textiles. Since then its empire has grown to cover 22 wholly owned companies and 26 partnership ventures.

A general feature of these and other new business empires is the tenacity with which they have been kept in close-knit family groups even though the original creation of one man. It is also noticeable how the more dynamic elements in the business community have originated outside Tehran, with a high proportion from Yazd.<sup>62</sup> Conditions have been extraordinarily favourable for anyone with a modicum of initiative, nevertheless the adaptation from traditional trading has been remarkable. Many of these new businessmen left in the turmoil before the revolution along with their money.

## Conclusion

The growth of the Iranian economy has been exceptionally rapid, the major part having taken place since the mid-1950s. Industry in particular has expanded so fast, in such a short time, one forgets just how new it is: very little is more than sixteen years old. The first agreement to assemble a passenger car, the Fiat 1100, was signed in 1960. The first comprehensive attempt to survey Iran's mineral resources was initiated in 1962 with the foundation of the Geological Institute. In that year Iran's first fertiliser plant at Shiraz began to operate at near capacity. The first Iranian-assembled tractor left its Romanian-built factory in Tabriz in 1968. In 1972 the first key engineering units—machine-tool plants at Tabriz and Arak—became operational along with a small aluminium smelter. The Isfahan steel mill, the Aryamehr Complex, began proper operation in 1973. The comparative lateness with which Iran reached these industrial milestones underlines the tremendous leap Iran had to make from the poverty and backwardness of the turn of the century.

Despite the initiation of planned development in the early post-Second World War period, the emergence of strategic objectives has been a recent phenomenon. Growth until the Fourth Five Year Plan was piecemeal. This partly reflected poor organisation and lack of direction. More importantly, it resulted from an inability—not always the Iranians' fault—to mobilise resources. For instance, early efforts to rely more extensively upon oil revenues were badly upset by the Mossadegh oil nationalisation. Iran was also frustrated in maximising oil revenue by the nature of the international market and historic relationships with the oil companies. As late as 1971 Iran was still forced to rely upon advances by the Consortium against royalties as a means of additional finance.<sup>63</sup>

Iran's rapid economic development tended to be grafted on to old structures rather than replace them. A modern sector grew up side by



side with the traditional rural economy but the two existed in relative isolation. The size of the country, disparateness and widely dispersed nature of the population, coupled with a cumbrous corrupt bureaucracy and poor communications reinforced this gap. As a result the benefits of imported technology and the spin-off from oil revenues remained, and were reinforced, around the capital and few select provincial towns. This uneven development, perhaps unavoidable, was to prove a major handicap when Iran accelerated expenditure in the wake of the 1973 oil price rises.

Like many rulers of developing countries with a large agricultural sector and an impoverished rural populace, both Reza Shah and Mohammed Reza Shah mixed politics and agricultural development so that the two considerations were completely intertwined. Agricultural development came to be treated as an issue of land ownership and the allegiance of the rural masses rather than the economic one of production. Thus when the economy began to stimulate consumer demand and living standards rose, especially from the late 1960s onwards, Iran suddenly found itself with a foodstuffs deficit. Unfortunately at a moment when structural reforms should have been introduced to tackle this deficit, there seemed so many other priorities that the agricultural sector entered the 1970s unprepared to meet a continued surge in demand.

## Notes

1. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1974 edition), p. 195.

2. Denis Wright, *The English among the Persians* (London, Heinemann, 1977), p. 106.

3. *Ibid.*, pp. 11 and 128-36. A confidential list of British interests in 1919 put the seven major interests in order of importance. Oil was fourth – behind the Telegraph, the Imperial Bank and maritime trade in the Gulf.

4. E.B. Yaganegi, *Recent Financial History of Persia* (New York, 1934), pp. 19-33.

5. Wright, *The English*, p. 104.

6. Jahangir Amouzegar and Ali Fekrat, *Iran: Economic Development under Dualistic Conditions* (Chicago, University of Chicago, 1971), pp. 13-14. The government did not understand the important nuance of 'net profits' which therefore enabled the taxes paid to the British Treasury to be deducted from gross profits. See also Wright, *The English*, p. 108.

7. Anthony Sampson, *The Seven Sisters* (London, Hodder and Stoughton, Coronet edition, 1976), pp. 70-1.

8. *Ibid.*

9. Sampson, *Seven Sisters*, pp. 72-3. APOC was to prove the most valuable British oil interest until 1954.

10. Wright, *The English*, p. 10.
11. India Office Library, Hamilton Papers, Curzon to Hamilton, July 1901.
12. Amouzegar and Fekrat, *Iran*, p. 14.
13. *Ibid.*, p. 15.
14. Julian Bharier, *Economic Development in Iran 1900-1970* (London, Oxford University Press, 1971), p. 159.
15. Initial production was 43,000 long tons a year. In 1919 it passed the 1 million ton mark and by 1938 was 10.19 million tons. By 1950 production was 31.75 million tons.
16. Comment to the author by an executive with AIOC at the time of nationalisation.
17. Amouzegar and Fekrat, *Iran*, p. 40-3.
18. The original Consortium members were BP (40 per cent), Shell (14 per cent), Exxon, Gulf, Socal and Texaco (each 8 per cent) and CIP (6 per cent). In 1955 each of the five US companies gave up an eighth of their holding to permit 5 per cent of the Consortium to be owned by nine US 'independents'.
19. Sampson, *Seven Sisters*, pp. 140-5 and 184-7.
20. *Iran Almanac Echo of Iran*, Tehran, 1977, p. 258. See also Amouzegar and Fekrat, *Iran*, p. 32-5. This represented a 32 per cent increase in production and a 113 per cent increase in revenues.
21. Based on conversations by the author with various NIOC officials and Consortium members from 1975 to 1977. Also see NIOC annual reports 1973-5.
22. Amouzegar and Fekrat, *Iran*, pp. 36-8.
23. *Ibid.*, pp. 26-7. Until the early 1930s Iran was importing most of its oil from Russia while AIOC exported Iranian oil to Europe.
24. *Ibid.*, p. 17. Under the 1933 agreement 20 per cent of dividends in excess of £671,250 had to go to the government of Iran.
25. Bharier, *Economic Development*, p. 136.
26. *Iran Almanac*, 1977, p. 416. The *qanat* system is also to be found in Oman where it is called the *fajaj* system.
27. Bharier, *Economic Development*, p. 136.
28. *Ibid.*, p. 132.
29. *Iran Almanac*, 1977, p. 309.
30. Ismail Ajami, 'Agrarian reform, modernisation of peasants and agricultural development in Iran', paper presented to Persepolis Symposium, September 1975. Published by Aspen Institute for Humanistic Studies (New York, 1976).
31. The first major attempt at distributing Crown lands began in 1951 but this was stopped under Mossadegh, then restarted in 1960. Crown lands were acquired through gift, seizure and confiscation by Shah Reza. Purchase at market rates was rare. Religious endowments, especially the Holy Shrine at Meshed, acquired large holdings through gift. This was considered preferable to being obliged to sell at nominal rates land to the Crown. Prior to Land Reform the Crown possessed some 4 per cent of cultivable land.
32. Amouzegar and Fekrat, *Iran*, p. 116.
33. Ann Lambton, *The Persian Land Reform 1962-1966* (London, Oxford University Press, 1969). Lambton's studies on land reform are generally considered the most exhaustive and authoritative.
34. Bank Markazi annual report, 1975/6, p. 83.
35. The distribution of land to the landless labourers (the *khushneshin*) was ruled out on the grounds that this would have created even greater fragmentation.
36. *Financial Times*, 28 July 1975.
37. Bank Markazi annual report, 1975/6, p. 83.
38. *Financial Times*, 21 June 1976.
39. Comments to the author by Agriculture Minister Mansur Rohani, June 1975. The lower estimate comes from World Bank field officers and US govern-

ment field officers.

40. *Financial Times*, 28 July 1975.

41. Fereydoon Firoozi, 'Industrial activity and the economy of Iran', *Iranian Economic Review*, Tehran, No. 1 (1976), p. 4. During this period the proportion of the labour force employed in agriculture declined from 54 per cent to 41 per cent.

42. *Ibid.*, p. 12.

43. Bharier, *Economic Development*, p. 203.

44. *Ibid.*, p. 206.

45. Firoozi, 'Industrial activity', pp. 26-8. Because the industry expanded too fast in the early 1950s, it ran into cash-flow problems but was bailed out by government intervention.

46. *Ibid.*

47. *Ibid.*

48. Amouzegar and Fekrat, *Iran*, p. 49.

49. *Ibid.*, p. 48.

50. *Ibid.*

51. Bharier, *Economic Development*, pp. 192-3. Over 50 per cent of the capital was American.

52. Firooz Tofigh, 'Development of Iran: a statistical note', paper presented to Persepolis Symposium, September 1975. Published by Aspen Institute of Humanistic studies (New York, 1976).

53. Amouzegar and Fekrat, *Iran*, p. 96.

54. Bharier, *Economic Development*, p. 36.

55. T. Jalil, *Workers of Iran. Repression and the struggle for democratic Trade Unions* (Campaign for the Restoration of Trade Union Rights in Iran (CRTUI), London, July 1976).

56. The Labour Law, Article 29 stipulates that 'syndicates, unions and confederations shall not be entitled to interfere in political affairs. They may however in cases of safeguarding their trade and economic interests express tendencies towards and co-operate with political parties.' For details of the text see T. Jalil, *Workers say No to the Shah* (CRTUI, London, April 1977), pp. 104-24.

57. Based on information supplied to the author by Moustafa Fateh, President of the Bank of Tehran.

58. Written answers to author's questions, July 1977.

59. *Ibid.*

60. *Newsweek*, 14 October 1974.

61. Habib Sabet now lives in semi-exile in Paris, refusing to return to Iran because of attempts to prosecute him during the anti-profiteering campaign of August 1975. However, the sons have carried on the business.

62. The Yazdis' reputation as successful businessmen is attributed to the city's position surrounded by desert, with trade the sole means of survival. Also the Zoroastrian influence in Yazd, uninhibited by the traditional Islamic rejection of usury, is said to have given Yazdis a head start.

63. Bank Markazi annual report, 1974/5, p. 157. In the three years up to 1971/2 these advances totalled \$ 511 million.

As one reads Iranian history, it becomes clear that most often the whole society was ruled as if it were the personal possession of the king.<sup>1</sup>

The fundamental nature of monarchy has varied little since Cyrus the Great proclaimed himself King of Persia in 546 BC. Continuity has been maintained not so much by heredity as by those who have had the strength and the will to gain power. Success conferred its own legitimacy and was the best guarantee of staying in power.

The institution survived because it was the most effective means of wielding authority. There were moments of greatness like under Shah Abbas in the sixteenth century; but for the most part monarchs were rarely enlightened and generally despotic: 'A significant part of that heritage has been a relatively centralised, authoritarian monarchy that used agricultural surpluses to maintain its army and bureaucracy, leaving the majority of the people powerless, illiterate and poor.'<sup>2</sup>

Royal lineage, therefore, was not a prerequisite for kingship; it merely helped sustain weak monarchs. More important was to show powers of leadership, to be *farmandeh* ('commander of the people'). Thus when in 1925 the Peacock Throne was vacated by the last of the Qajar kings, it was within tradition that Parliament should turn to the strongest man, Reza Khan, and ask him to become Shah. It did not matter that he was born completely outside the establishment and had worked his way up the ranks of the army.

### The First Pahlavi

By Mohammed Reza Shah's own account, his father was born in Mazanderan Province near the Caspian Sea in 1878. His parents were minor military stock. 'Both his father and grandfather had been officers in the old Persian army.'<sup>3</sup> The family house is preserved today in the village of Alasht high in the foothills of the Mazanderan Mountains — a village very much as it must have been then with some 200 households living in small mud brick houses with tin or thatched roofs. The school was built only in 1932.<sup>4</sup>

At the age of fourteen he joined the Russian-commanded Persian Cossack Brigade and worked his way through the ranks, first as an illiterate private and then, by dint of study and force of personality, became an officer. The Cossack Brigade was the country's only fight-

ing force, some 3,000 strong. Reza Khan was an imposing figure with cold piercing eyes, who distinguished himself among his fellow officers as a man of action and high integrity with a burning patriotism. As the British prepared to withdraw their forces from the north of the country in late 1920, Reza Khan was regarded as the most outstanding soldier in the Cossacks and his promotion was accelerated as the Russian officers were dismissed for fear they might sympathise with their Bolshevik comrades.

On the eve of British withdrawal Reza Khan was put in effective charge of the Cossacks by the British commander in the area, Major-General Sir Edmund Ironside, in the knowledge that he might well use his position to depose or confront the Shah.<sup>5</sup> This was precisely what he did — marching on Tehran from Qazvin, and presenting the Shah with an ultimatum to change his government on 21 February 1921.

After an uneasy interregnum of four years, Sultan Ahmad Shah was deposed by parliamentary vote in October 1925, thus ending a dynasty that had the distinction of providing only one ruler that relinquished his throne through natural death during 146 years. Having graduated from being Minister of War to Prime Minister at the time of Sultan Ahmad's deposition, Reza Khan was a logical, though not inevitable, choice as Shah.

Reza Khan, much impressed by the example of Mustapha Kemal (Atatürk) who had declared a republic in Turkey toyed with the idea of republicanism. 'I am sure that my father for a time preferred the concept of a republic,' his son said later.<sup>6</sup> At this stage his overriding concern was how best to unify the country, establish law and order and sweep away the decadence that had characterised the final years of the Qajar dynasty. There are two plausible explanations why he opted for a monarchy. Given the traditional fear of Russia and concern over the effects of the Bolshevik revolution, the creation of a republic might well have frightened many Iranians and confused them about what he was trying to do. Second, the mullahs, the powerful clergy, would have been very suspicious of the idea of a republic. Thus at a moment when unity was critical, the creation of a republic might have provided the grounds for further strife and disunity.

Reza Khan crowned himself Reza Shah Pahlavi on 25 April 1926. His choice of the name Pahlavi was highly significant. This symbolised his desire both to associate himself with the glories of Iran's past and to give a sense of legitimacy to the dynasty. Pahlavi was the language spoken by the Parthians who ruled Persia after Alexander the Great,

and is considered to be the basis of the present Persian language. Reza Shah felt himself to be a ruler of true Persian origin unlike the Qajars (of Turkic origin).<sup>7</sup>

The need to justify the existence and legitimacy of the Pahlavi dynasty has been a continuing theme. It was less so with Reza Shah and was more pronounced with his son. Reza Shah, for instance, continued to sleep on the floor, refusing a royal bed; he always regarded himself as a soldier and indeed the first time he wore civilian clothes in public was when he boarded the British ship at Bandar Abbas in September 1941 that was taking him into exile. Reza Shah, though continuing the practice of a Court, was a man of simple tastes with an intuitive rather than a polished intelligence. Even in later years he was not highly literate. Marvin Zonis in *The Political Elite of Iran* comments 'The extent to which Reza Shah was illiterate as the shahanshah is a moot point but it seems probable that he was never wholly comfortable with the skill'.<sup>8</sup>

His purpose was relatively simple: the regeneration of Persia and an end to foreign interference. He changed the name of the country from Persia to Iran in 1934. Iran being by origin the same word as Aryan. (Persians were just one of the Indo-European Aryan tribes that came to settle in what is now Iran.) He was an outright nationalist. He appreciated the importance of modernisation for Iran even if he did not always understand it. He approved the sending of students abroad, encouraged the foundation of Tehran University – the first secular institute of higher learning – and abolished the full veil for women.

But he developed dynastic ambitions. These were not limited to identifying the Pahlavis with the ancient past and a regenerated Iran. He decided to marry his son, Mohammed Reza, to King Farouk of Egypt's sister, Princess Fawzia. Without his son ever having cast eyes on her the marriage went through in 1939 with the Constitution being specially altered to get round the prohibition on inheritance of the Crown through a non-Iranian parent.<sup>9</sup> A Pahlavi had married into real royalty and it seemed a grand alliance.

Despite some appearances of modern rule, Reza Shah was despotic and utterly ruthless. He built up his own wealth through a mixture of gifts, cheap acquisitions and expropriation, mainly in land. Zonis calculates that

by the time of Reza Shah's abdication, more than two thousand villages passed to the control of the new monarch. Using a measure of 4.8 persons per household, some 235,800 were in the direct service of His Imperial Majesty qua landlord.<sup>10</sup>

terms with the perennial problem of corruption.

In the end Reza Shah was destroyed by events bigger than himself. His country and its oilfields had become of major significance to Britain. He rarely travelled outside Iran and failed to appreciate the extent to which his pro-German sympathies antagonised the British and the Soviets at the outbreak of the Second World War. Or if he appreciated this, he failed to realise that both Britain and the Soviet Union were capable of riding roughshod over Iranian sovereignty if they felt their vital interests were at stake. The signal for this was Hitler's invasion of the Soviet Union in June 1941. Two months later Allied troops moved into Iran, forcing an ignominious abdication which led to exile, first in Mauritius then Johannesburg, where he died in July 1944. (His body was subsequently embalmed in Egypt and after the war brought back to rest in a mausoleum built near Tehran at Rey.) These errors of judgement meant that his son was placed on the throne, aged only 21, as a virtual puppet of the Allies.

### **Mohammed Reza Shah**

Mohammed Reza Shah was altogether a more complex character than his father. He had begun life as a commoner, born a twin with his sister Ashraf, on 26 October 1919. At the time of his father's coronation he was almost seven years old. From then on as the Crown Prince, he led a protected, rarefied existence singled out to learn the rules of kingship from a gruff intimidating father. He was a sickly child and narrowly escaped dying of typhoid. This sickness, coupled with the strong influence of an imposing father created a determined youth, eager to prove and test himself to the limit – a characteristic he continued to show in later life in his love for flying. He was of slighter build than his father and seems to have developed a complex about his size (today he wears shoes with elevated platforms and insists that all photographs be taken so as not to emphasise his smallness).

In many ways he became the antithesis of his father. Instead of Reza Shah's tough parade-ground manner used to giving orders, there was a rather shy, soft-spoken person who had to learn a public manner. Reza Shah had a down-to-earth view of things, his son claimed to have visions.<sup>15</sup> Reza Shah saw himself as a patriot, his son went beyond this and sought to give his rule a sense of divine mission. He found evidence of this divine mission in his amazingly lucky escapes from at least one dangerous air crash and five known assassination attempts. Of the assassination attempts two were nearly fatal. at Tehran University on 4 February 1949, when a young man in the guise of a photographer

shot him five times, and on 10 April 1965 when a group of soldiers tried to gun their way past his guards at the Marble Palace.<sup>16</sup>

When you think I've been wounded by a good five bullets, one in the face, one in the shoulder, one in the head, two in the body and the last one stuck in the barrel because the trigger jammed . . . You have to believe in miracles. I've had so many air disasters, and yet I've always come out unscathed – thanks to a miracle willed by God and the prophets.<sup>17</sup>

Mohammed Reza Shah had the benefit of a proper education, albeit a very cosseted one with selected sons of high officials in Tehran and later with the sons of wealthy Europeans at Le Rosey in Switzerland. He was the first Iranian monarch to have a foreign education. By his own account it was an important experience, opening his eyes to a wider world. (An interesting reflection of the times was his journey to Switzerland – by boat up the Caspian to Baku, and then by rail across the Soviet Union, through Poland and Germany.<sup>18</sup>) Though his Swiss schooling helped to rid him of his father's provincialism, it created a cultural schizophrenia – an admiration and fascination with Western culture, technology and institutions and yet a strong, almost chauvinistic attachment to the values and traditions of Iran.

This ambivalence towards Western culture became more pronounced with time and lay behind his assertion that a regenerated Iran would soon take its place among the world's industrial powers in the Great Civilisation. It also helps explain his desire to justify his authoritarian system of government – something his father never felt the need to do. He made a revealing statement to Oriana Fallaci in this respect.

Believe me, when three quarters of a nation doesn't know how to read or write, you can provide for reforms only by the strictest authoritarianism – otherwise you get nowhere. If I hadn't been harsh, I wouldn't even have been able to carry our agrarian reform and my whole reform programme would have stalemated.<sup>19</sup>

He regarded the monarch's role as a combination of father figure, revolutionary innovator and patriotic leader. An indication of this philosophy appeared in 1976 when on his orders a group of academics under the Chancellor of Tehran University drew up a 7,000 word document entitled 'The Philosophy of Iran's Revolution'. Though



in many respects merely an apologia for the Shah's actions in 1963 - the crushing of parliamentary opposition and pressing ahead with the so-called 'White Revolution', spearheaded by Land Reform - it is a revealing document

In making revolution, the leader of the nation plays the crucial role. A strong enlightened leader, fully comprehending existing conditions, nurtures and develops the idea of revolution in his mind, transfers the idea to the people and then moves to implement it.<sup>20</sup>

In other words, the nation plays a purely passive role in decision-making and only participates once a decision has been made. The document had this to say about the monarch as leader and father figure

Although there have been strong and weak monarchs, for the people, the idea of monarchy extends beyond the individual. Monarchy is seen as more than merely an executive office. The periods of Iran's greatness have coincided with the rule of able monarchs. The distinguishing characteristic of such monarchs has been that they rose from the people and that they were activists, fulfilling the traditional role of the monarch as 'farmandeh', as commander of his people. Such monarchs have always enjoyed the support of the mass of the people, with whom they are in direct relationship. Sometimes, this support has been expressed through a direct reference of questions by the monarch back to the people, as in the national referendum on reform ordered by the Shahanshah in 1963. The Shah and the People, according to the 'Philosophy of Iran's Revolution', constitute two superforces and they have allowed 'no intermediary or insulator to intervene in the direct relationship between them.'

Together they have ensured the survival of the Iranian nation. The Shahanshah moreover stands above class or the interests of special groups in society. He is king of all the people. He is also in a father-son relationship to the nation. The principal of heredity is linked to this. In the training of the Crown Prince, the transfer of kingly responsibility, preservation of national unity and integrity; the reinforcement of national confidence and the maintenance of the monarchy above class and group interests. The Shahanshah is not just the political leader of the country. He is also in the first instance teacher and spiritual leader, an individual who not only builds his nation roads, bridges, dams and qanats but also guides the spirit, thought and hearts of his people.<sup>21</sup>

This harks back to Mussolini and Franco (for *farmandeh* substitute *Duce* or *Caudillo*). It pays no regard to the idea of constitutional monarchy as envisaged in the 1906 Constitution and seeks to justify only two institutions in the political process – the monarch and the people. Parliament does not count as the legislature; and the judiciary is ignored in this mystical union between the Shah and his people. In essence this philosophy merely formalised authoritarian rule.

Contrary to appearances, going direct to the people was not populism, though it easily could have been if the Shah had chosen to behave this way. The Shah was not a dazzling public speaker; his diction was dull, he was too small to be imposing and he did not seem to respond to meeting the people and ‘pumping the flesh’. Cold and distant public appearances were the rule, dictated in part by the fears of his security advisers (he travelled virtually everywhere by helicopter). But it also seems that this was genuinely not his personality. He came across better in private conversations and press interviews – a medium of expression he clearly enjoyed.

The pomp and formality of the Imperial Court was both a protection against the outside world and a stage set to remind that Iran had a king. (The intricacies of formality and precedence also served to feed the self-importance of those surrounding the Shah.) The Shah sought to achieve his mystical union with the people more by remote control. He or another member of the Royal Family was always to be found on the front pages of the press or seen on television daily. His portrait in deliberate pose as The Leader, The Father Figure or in a trinity-like trio with the Empress and the Crown Prince was found throughout the country. A particularly telling official photograph depicted the Shah as though he was waving from the top of a mountain, the nation out of sight somewhere below.

There was an obsession with associating monuments and nomenclature with monarchy. The main monument in Tehran was called the Shahyad (‘remember the Shah’); the new administrative and commercial centre in Tehran was called Shahestan Pahlavi (Place of the Pahlavi Shahs). All over the country dams, boulevards, parks, towns and even ships were called after the Shah, his family or his dynasty. Meanwhile school textbooks repeated at length the lesson of loyalty to the monarchy and the achievements of the Pahlavis. The ritual exposure of the Pahlavi dynasty and the royal person could only be attributed to insecurity, vanity, or a belief that this encouraged loyalty. This in part explains the elaborate celebrations at Persepolis in October 1971 commemorating 2,500 years of monarchy; and the

carefully orchestrated celebrations in 1976 for the fiftieth anniversary of the Pahlavi dynasty.

To underline the role of monarchy in Iran – and in particular the part played by the Pahlavis – a loyal Parliament in March 1976 voted in a new ‘monarchy calendar’. The Islamic calendar based on the Hejra year (introduced in Iran by Reza Shah) was altered in favour of a system based on the coronation of Cyrus the Great 2,535 years ago. *Kayhan* commented

Parliament thought it fitting that the Iranian calendar be based on such an omnipresent and intrinsic element of Iran’s history. The decision itself is also a tribute to the Pahlavi dynasty in particular and to other dynasties in the same class.<sup>22</sup>

The change took the country by surprise and provoked considerable opposition especially among the mullahs. The Shah’s opponents persisted in using the old calendar, regarding the change as unconstitutional and a cheap means of the Shah exploiting Iran’s past glories.

It is noteworthy that these moves to reinforce the institution and appeal of monarchy became more evident once Mohammed Reza Shah had acquired a male heir. From his first marriage through to his third with Farah Diba the Shah had to wait impatiently for 21 years to obtain a male successor.<sup>23</sup> In fact he did not hold his coronation until 1967 partly because of this. When he did finally hold a coronation he crowned himself like his father, though this time in addition to being Shahanshah he had also acquired the title Aryamehr (Light of the Aryans).<sup>24</sup>

### **Formative Experiences**

The period from the Shah’s accession in 1941 up until 1963 was a difficult, testing and occasionally embarrassing era. But it cannot be forgotten for it was a period of formative experience, which is best understood in three compartments. 1941-51, the early years in which he sought to break loose from the Great Powers and restore national confidence after the Allied occupation in the Second World War, 1951-3, the trial of strength with Mossadegh over oil nationalisation that forced him to flee and be restored with American support, 1954-63, the gradual strengthening of royal authority and the ruthless

establishment of internal security leading to the elimination of parliamentary opposition.

For the duration of the Second World War the Shah had to go along with the Allies. It had been made perfectly clear to him by the forced abdication of his father that so long as Hitler remained a threat and the Soviet Union needed a southern supply route, Iran would be occupied. The Shah's first real test came at the end of the war in 1945 when he sought to have Soviet and British troops withdraw from Iranian soil in what is known as the Azerbaijan crisis. British and Soviet troops were pledged to withdraw from Iran by March 1946; but as the months passed the Soviet forces withdrew only as far as Qazvin and appeared in no hurry to move. Then in November, inside the zone still occupied by Soviet troops, two autonomous republics were proclaimed – the Autonomous Republic of Azerbaijan and the Kurdish Republic of Mahabad. The threat posed by the republics and the Soviet occupation was threefold. The republics played on regional differences (the Kurdish Republic talked of incorporating parts of Turkey and Iraq) that could lead to a Balkanisation of Iran. Second, Iran faced the prospect of coming firmly within the sphere of Soviet influence as the two republics were already dependent upon the Soviet Union for protection and supplies. Finally, the republics, with their anti-monarchist tone and clear sympathy for socialism and Communism, were an encouragement to these political forces in the rest of the country, already fostered under a weak monarch during the war.

Initial Iranian moves to deal with the crisis were ineffectual. Iranian troops sent to Azerbaijan could get no further than Qazvin, where they were halted by Soviet forces. The British and Americans, so soon after their wartime alliance with the Soviet Union, seemed reluctant to confront Stalin, or were genuinely waiting to get the measure of Moscow's intentions. The matter was taken to the newly established Security Council of the United Nations; but in the end it was direct negotiations by the Iranian Prime Minister, Ahmad Qavam, regarded then as a Soviet sympathiser, that managed to persuade the Soviet forces to withdraw by dangling the promise of oil concessions in northern Iran. Soviet troops withdrew in May 1946, and before the end of the year the two republics had collapsed. Iranian forces took over Tabriz and Rezaieh, their respective headquarters, unopposed.

The Soviet action in retrospect still is not fully comprehensible. Iran was being used in the first feinting gestures of the Cold War; but in the purely Iranian context did Stalin believe that the presence of Soviet troops and the creation of two people's republics would topple a weak

monarch and establish a sympathetic régime on the long underbelly of the Soviet Union? If he did, it proved a clumsy gesture that underestimated traditional Iranian distrust of Russia and led to the destruction of the Tudeh (Communist) Party – especially in Azerbaijan – which had been carefully built up during the War. The Soviets also underestimated the mood of the Iranian Parliament, which refused to ratify the agreement for oil concessions in northern Iran.

This incident reinforced the Shah's mistrust of the Soviet Union, which had already been well nurtured by his father. In 1907 the British and the Russians had concluded a treaty agreeing on a division of their spheres of control – the British taking the south and the Russians the north, with Iran getting a 'neutral' slice of territory in the centre. Soviet troops had occupied northern Iran during the First World War, and one of the first acts of the Bolshevik government in 1920 was to support the short-lived Soviet Republic of Gilan on the Caspian.

The Azerbaijan crisis was to imbue the Shah with a permanent suspicion of the Soviet Union and a mistrust of Communism in general. Reflecting in his memoirs, the Shah had this to say:

Communism seeks to exploit not only the political, economic and social weakness of the emerging lands but also their military vulnerability. If a country fails to secure its defences, the communists play with it as a cat does with a mouse. During the Azerbaijan crisis, and again in Mossadegh's time, we Persians found ourselves in the unhappy role of the mouse. We resolved never again to be so unprotected.<sup>25</sup>

December 12 was made Azerbaijan day and each year a big military parade commemorated it.

Communism and Marxism thus came to be regarded as hostile ideologies unacceptable to Iran, and their practice outlawed. The Shah himself claimed that all his political prisoners were Marxists.<sup>26</sup> The Azerbaijan crisis put the Shah family firmly in the anti-Soviet camp, aligning him with Britain and the US. Equally important, it determined the Shah that national sovereignty could only be protected by a strong army. Indeed the Azerbaijan crisis, backed up by all the indignities of occupation during the First and Second World Wars, contributed to the Shah's almost obsessive concern with Iran's security. This explained in large measure his subsequent moves to create the region's most modern and largest defence forces.

The experience also conditioned the pattern of Iran's regional alliances.

The Shah's strong links with Israel developed in the 1950s out of his belief that the Zionist state was an effective bastion against Communism and the rising tide of Arab nationalism which seemed aimed against monarchies and Soviet-inspired. Mistrust of Communism led to the gradual deterioration of relations with the Baathist government in Iraq after the overthrow of King Feisal; and it later prompted the Shah to support (along with Israel) moves for Kurdish autonomy in Iraq. The despatch of an expeditionary force to Oman was motivated in part by fears that the radical ideology of the Marxist government in South Yemen might spread throughout the Arabian Peninsular. More recently fears of increased Soviet influence in the Horn of Africa led to Iranian small arms supplies for Somalia against Ethiopia.

Iran's close ties with Pakistan, which survived differing styles of Pakistani leadership, were dictated by apprehensions over India's attitude towards the Soviet Union. This was particularly the case in 1971 following the Soviet-Indian Treaty of Friendship which led to powerful Iranian financial backing for Pakistan and the gift of military hardware. Conversely, once the Shah became reassured of India's independence *vis-à-vis* the Soviet Union, relations improved. By the same token, the end of the Nasser era in Egypt and President Sadat's expulsion of his Soviet military advisers in 1972 led to increasingly close ties between Iran and Egypt.

### **The Challenge from Mossadegh**

The Azerbaijan crisis was primarily a challenge to the sovereignty of Iran. The 1951-3 period when Mohammed Mossadegh became Prime Minister was a direct challenge to the Shah's authority as monarch – and he came very close to losing.

The extent of the Shah's powers had been an issue during the Azerbaijan crisis. The Prime Minister, Ahmad Qavam, had been delegated much of the diplomatic leg-work and on occasions became enormously frustrated at the ambiguous nature of where his power ended and that of the Shah began.<sup>27</sup> His view and that of Parliament was a constitutional one, intimately linked with the lengthy struggle to obtain a constitutional monarchy under the last of the Qajars. It was a simmering conflict that sooner or later was bound to create a confrontation, especially with a monarch who was anxious to assert himself.

Mossadegh became Prime Minister on 28 April 1951, at the age of 70, having held a variety of posts, including the portfolio of Foreign Affairs and the Finance Ministry under Reza Shah (who incidentally imprisoned him once and threatened exile on another occasion).

Without doubt Mossadegh was the country's most seasoned politician. He had been denied the premiership until then, in good measure due to his ill-concealed contempt for the Pahlavi dynasty, whom he regarded as social upstarts and unconstitutional. (His opinion was not unconnected with his mother being related to the deposed Qajar dynasty.<sup>28</sup>)

He had made himself into a national hero by playing skilfully on the Iranian hatred of the foreigners, symbolised by AIOC, which was exploiting Iran's vital oil resources. Well before coming to office he had made a platform out of oil nationalisation. Even if this was against the Shah's better judgement it was a policy he was in no position to oppose. Mossadegh knew this and stipulated nationalisation of AIOC as a precondition of accepting office. Once in office this was his first move, but it soon became clear that he was as much concerned to humiliate the Pahlavis as nationalise the oil industry.

For the next eighteen months Mossadegh ruled Iran, gradually eroding the Shah's authority and isolating him from political contact. He forced the Shah's twin sister, Princess Ashraf, into exile in the belief (almost certainly correct) that she had great influence over the Shah and was a more determined and scheming person. Mossadegh set in motion a careful scrutiny of how the Pahlavi family had built up a vast fortune in less than a generation. The distribution of Crown Lands was halted because Mossadegh argued that the Shah had no right to obtain kudos from the distribution of possessions illegally acquired. Moreover, he sought to weed out pro-Shah elements within the armed forces, realising that once stripped of the armed forces' loyalty the Shah was impotent.

The erosion of royal authority culminated on 16 August 1953 when the Shah abortively sought to replace Mossadegh. Mossadegh promptly announced that the Shah had attempted to overthrow him. The Shah, who for months had geared himself up to the prospect of fleeing the country, now did precisely this - first to Baghdad and then on to Rome. The next day the statues of the Shah were pulled down in Tehran. Yet in an extraordinary change of fortune the tide was turned against Mossadegh within three days. A combination of support from outside, in the form of the CIA, loyal troops within the armed forces and paid mobs recruited in the Bazaar re-established control in Tehran - successfully capitalising on the mood of doubt and confusion that developed in the wake of the Shah's flight. From being an exiled king morosely buying presents in Rome boutiques to console his wife, the Shah was able to return to a 'heartwarming, tumultuous welcome'.<sup>29</sup>

Mossadegh was arrested and put on public trial in November charged

with treason. Although his Foreign Minister, Hussein Fatemi, was tried for the same offence and executed, Mossadegh was given three years' imprisonment. He then was allowed to live in his country house near Tehran in what amounted to house arrest until his death in 1967. A full account of this turbulent period is still not possible, but some judgement has to be made of Mossadegh.<sup>30</sup>

From the start Mossadegh made one important miscalculation. He believed that the Americans, who had no stake in the Anglo-Iranian Oil Company, would support nationalisation. This belief was based on American resentment of Britain's role in the region and the influence flowing from British involvement in AIOC. His misreading of the scene was not entirely his own fault as the American Ambassador in Tehran, Henry Grady, encouraged this view.<sup>31</sup> In the event the Americans sided with the British, at first merely to ensure that nationalisation did not work. Then, as they feared the Soviet Union might exploit the situation and the outlawed Tudeh Party gain ground in Iran, they considered the more drastic solution of overthrowing Mossadegh. This was preferred to direct military intervention, although at one stage British paratroops were on standby in Cyprus.

The opposition of Britain and the US to Mossadegh was crucial, but the role of the CIA in all this can be exaggerated. The fact that America chose to withhold aid and deny loans when all oil revenue was halted proved a vital destabilising factor, which created a propitious climate for subversion. Subversion was primarily orchestrated by the CIA, and the man responsible, Kermit Roosevelt, has never disguised the agency's role. However the Shah has preferred to portray Mossadegh's overthrow as a spontaneous expression of pro-Shah loyalty.<sup>32</sup>

In retrospect there are striking similarities between American behaviour over Mossadegh and the toppling of President Allende in Chile. Both were men embarked on paths considered too dangerous to tolerate. Apart from blocking aid, the Americans acted as co-ordinator, financier and counter-propagandist. The reports that appeared in the press at the time played up three themes – the infiltration of Communist elements, Mossadegh's growing dependence upon Tudeh support and the grotesque gestures and appearance of Mossadegh, who was invariably ridiculed for his tearful outbursts or his press conferences in pyjamas. As to whether he played into the hands of the Tudeh Party, most of the evidence produced so far has been one-sided, with a vested interest in proving that he was a figurehead whom the Communists would dump once he had served his purpose.

Having miscalculated the American position, Mossadegh compound-



led his difficulties by failing to see the problems of selling oil in a cartel market. By the same token he underestimated the economic consequences of the loss of oil revenue. Thus the euphoria of nationalisation favoured him so long as nationalisation was seen to be working. As time dragged by without the expected results, people became impatient, and the conservative elements, who for nationalistic reasons had applauded the move, were turned against him by propaganda that he was encouraging the Communists. Indeed as conservative support waned, so he had to lean more on the socialist- and Communist-minded. It was also a natural, though dangerous, bargaining move to threaten the British and Americans with a closer Soviet alliance – his only area of diplomatic manoeuvre.

Mossadegh lost out not merely because his moves were poorly planned. He underestimated the strength of the opposition, and he did not have sufficient support within the armed forces. The crucial issue was confirmation of the traditional adage that an Iranian ruler survives as long as he is successful. So long as Mossadegh was on top the Shah could command little support; but as Mossadegh's position weakened, the Iranians once again began to hedge their bets.

### **Consolidation of Power**

Despite all his mistakes and the greater strength of his opponents, Mossadegh nearly held the field. For Mohammed Reza Shah it was a traumatic experience that had a lasting effect on his view of government. From now on he was determined that the Prime Minister be a servant of the Crown, and that defence of the Crown be the single most important consideration.

Those who served him well during this period were handsomely rewarded and still hold key positions. General Nematollah Nassiri, latterly head of SAVAK, the Iranian security services, was the man designated to deliver the fateful message dismissing Mossadegh on 16 August 1953. Mohammed Khatemi, the pilot of the aircraft that flew the Shah out of Iran, rose to become Commander-in-Chief of the Air Force, married the Shah's half-sister, Princess Fatima, and was a central figure in the armed forces establishment until his death in an accident in 1975.<sup>33</sup> Those who offered financial assistance were subsequently well placed to obtain monopolies or contracts. Amir Hushang Davalou, an aristocratic figure related to the Qajars, was in France in 1953 but put his funds at the Shah's disposal. His reward was the concession to export caviar to Europe. Sir Shapoor Reporter (knighted for his services to Britain) acquired a major entrée to the business world, having helped

coordinate intelligence activities. Those who hedged their bets were not forgiven, like the Iranian Ambassador in Baghdad who tried to get the Shah arrested, or the chargé d'affaires in Rome who refused to let the Shah have his own car keys.<sup>34</sup>

With the Shah's successful reinstatement the Americans supplanted the British, fashioning a new role as protector and guarantor. Within a month of Mossadegh's fall Eisenhower had approved \$45 million in emergency economic aid, even though the nationalisation issue had not yet been settled. Between 1949 and 1952 America had provided a total of \$33 million in grants and loans; but between 1953 and 1957 a total of \$500 million was extended, of which one-quarter was earmarked for the military.<sup>35</sup>

America had already acquired a small foothold in 1943 when asked to reorganise the gendarmerie, turning it into a full paramilitary force. But the trust earned from helping the Shah over Mossadegh paved the way for deeper involvement. The instruments were economic and military aid and assistance in reorganising the security services. American aid and technical assistance established the security agency SAVAK (coined from its Iranian name *Sazeman-e Ettala'at va Amniyat-e Keshvar*) in 1957.<sup>36</sup> This organisation was also assisted by the Israeli intelligence service, Mosad. The Shah had already turned to the Israelis for the provision of his personal security after deciding outsiders were more efficient and trustworthy.<sup>37</sup>

SAVAK was to become a key instrument in the Shah's acquisition of absolute power. Just as Mossadegh eroded the Shah's power in 1951, so the Shah now set about consolidating his own position, at the expense of the political parties and Parliament. Political parties were banned and replaced by two puppet parties, the Melliyun (Nationalist) and the Mardom (People's) parties, headed by loyal lieutenants of the Shah. Press censorship became tight. All this was backed up by a ruthless suppression of suspected opponents, especially those with links to the National Front Party of Mossadegh or the Tudeh Party.<sup>38</sup> The armed forces were thoroughly purged of suspect members. Some 600 Tudeh members were said to have infiltrated and had even got as far as being accepted into the élite Imperial Guard.<sup>39</sup> The Shah also made sure that a careful watch was kept on the clergy, and moved to suppress any power that the Bazaar might wield. He was trusting few people and relied upon a contracting circle of loyal associates.

The political parties finally expired after a brief rally between 1960 and 1963. When encouraged in the belief that the Kennedy administration supported greater liberalisation, former followers of Mossadegh

sought to prevent the Shah assuming absolute power. Under pressure from the Americans, the Shah appointed a former Mossadegh Finance Minister, Dr Ali Amini, as Prime Minister. Since the Shah was known to dislike the man intensely this was interpreted as a sign of weakness. The National Front took heart and began to reorganise. The party quickly proved that the name of Mossadegh was still an emotive rally for all shades of opposition.

A confrontation with authority was inevitable the National Front had been accused of inciting Tehran University students that provoked an exceptionally bloody army raid.<sup>40</sup> More seriously, it was calling for a return to constitutional government and demanded a boycott of a national referendum called by the Shah to approve Land Reform. The Shah at one stage considered having the National Front co-opted into the Cabinet as a means of controlling them. When this idea failed he went on the offensive.

National Front members were rounded up and the referendum went ahead to a predictable success 5.5 million in favour of Land Reform out of 6.1 million eligible voters. There was now only one real source of opposition, the clergy, whose spearhead was a fiery mullah and theologian, Ayatollah (a special title accorded only to the most respected mullahs) Khomeini. He opposed Land Reform, arguing that it was against Islam, and likewise opposed enfranchisement of women. It was a reactionary position, but he expressed it with passion and he attracted a large following, especially among the urban poor suspicious of the Shah's efforts to modernise and bitter at their exclusion from the benefits of oil money.

In June 1963, immediately after moharram (the holiest period in the Shiite year), Khomeini was arrested in Qom, provoking the worst riots of the century which raged throughout the country's major cities for three days. In response the Shah countenanced a bloody law and order operation by the army which resulted in serious loss of life - perhaps over 1,000 killed or seriously wounded.<sup>41</sup> This ferocity cowed the opposition as the message was now clear: the army would be used to back up the régime whenever necessary. The Shah's gamble had paid off: the suppression of the riots curbed the mullahs and their faithful supporters, who could draw in elements who were not necessarily religious, but who could use religion as a front for political protest.

There now followed a period of disaffected calm which was to set the pattern for the coming years: a docile rubber-stamp Parliament, the appointment of technocrat Ministers and the increased use of SAVAK for political repression. The only remaining protest was desultory oppo-

sition from within the universities which, despite closures and ~~many~~ continued to flare up. The mullahs also continued to protest but in lower key and they were easily arrested. Faced with tough and ~~hard~~ handed repression, a number of the educated élite preferred ~~to~~ abroad.

Subsequently, an underground guerrilla movement emerged, ~~mainly~~ carrying out acts of sabotage and attacks on SAVAK or SAVAK-associated personnel. The guerrilla movement attracted members from both the extreme right and the extreme left, relying for its main strength upon disaffected students. They were denounced as 'Islamic Marxists' by the authorities who invented a common ideological brand. However, this blurred the distinction between those who espoused Marxist revolutionary views (and who had had training in China, Eastern Europe, Cuba or latterly in hostile Arab countries) and a more home-grown right-wing fanaticism. But their actions were never more than irritants and their operational strength at any one time was no greater than 300.

Opposition from within the system ceased to present any serious challenge as well. Amini was the last Prime Minister with any authority of his own – and he lasted under two years. He had sought to control the Shah's heavy spending on the military and initiated a tough anti-corruption campaign. Yet the removal of the National Front from politics and the suppression of all opposition eliminated Amini's power base and the Shah was able to ditch him in early 1963. A similar fate befell his radically minded Agriculture Minister, Hassan Arsanjani. His fault was to have been too good at his job and too popular among the peasants on whose behalf he was carrying out Land Reform.<sup>42</sup> Others who troubled the Shah were eliminated in various ways – some civilised, others brutal. General Zahedi, who had played a critical role in the overthrow of Mossadegh and who succeeded him as a 'loyal' Prime Minister in 1953, was subsequently obliged to retire to Geneva – he had become too powerful. General Pakravan, the donnish second head of SAVAK, was pensioned off as Ambassador to Pakistan for allegedly being too accommodating to the Shah's opponents.

The fate of the first head of SAVAK, General Bakhtiar, was more dramatic. Bakhtiar apparently took no part in the overthrow of Mossadegh: but his competence attracted the Shah and he was of the same clan as Soraya Esfandiari, the Shah's second wife. Having built SAVAK into a very powerful organisation, Bakhtiar was dismissed in 1961 – the Shah forestalling the man from having ambitions of his own. A year later he was 'invited' to leave Iran for Europe. He then went into exile, associating himself more and more with the opposition, even collabora-

ing with the Baathist government in Baghdad to attack the Shah. He died in what was officially reported as a hunting accident some twenty miles inside the Iraqi frontier in August 1970. The Shah subsequently admitted that he had been eliminated by SAVAK.<sup>43</sup>

This background makes something of a mockery of the 'White Revolution' or the 'Shah-People Revolution' that began in 1962. The White Revolution merely marked the end of a Western-style parliamentary democracy and the beginning of absolute monarchy. For the Shah the revolution was symbolised by the overwhelming support given to his six-point referendum held on 26 January 1963. The points were: (i) the abolition of the landlord-serf relationship; (ii) nationalisation of the forests; (iii) sale of government factories to pay for Land Reform; (iv) amendment of the election law, including the enfranchisement of women; (v) approval of workers sharing company profits, (vi) establishment of a literacy corps to facilitate compulsory education.<sup>44</sup>

There is no doubt that these reforms were needed. The Shah's argument was that without a referendum these reforms would have been obstructed in Parliament. However, this ignores two essential points. First, the reforms, populist in tone, were in response to a deteriorating political situation where the Shah needed to attract popular support. Second, the opposition to reforms in Parliament was less against the policies and much more against the Shah's attempts to gain absolute power.

The importance attached by the Shah to the referendum result and his propagandist promotion of the idea that a 'revolution' had taken place reveals an interesting ambivalence. At the level of power politics, the Shah accepted that strong authoritarian rule is essential. 'To get things done you need power, and to keep power you shouldn't have to ask permission or advice from anyone.'<sup>45</sup> Yet emotionally he held an apparently genuine belief in a special bond between Shah and people. Practically, he had to exclude the people, emotionally he wanted to include them. This ambivalence permitted him to ignore how others viewed the political process in Iran.

Two years before the White Revolution he had this to say about dictatorships:

Communist dictators resemble Fascist ones in that they both enjoy holding elections. They hope to give the ordinary working man the idea that he has a voice in the Government of his country. But the Communist rulers allow only one political party; anybody who tries to start another, or who speaks against the ruling party, is likely to

be liquidated. In the elections (if you can call them by that name), the voter has no choice, for the only candidates listed are those of the ruling party. Purely as a matter of form, the citizen is urged or ordered to go and vote; the authorities then triumphantly announce that, let us say 99.9 per cent of the votes cast were for the ruling party. I wonder how many intelligent people are fooled by that sort of thing.<sup>46</sup>

In fact the Shah was giving a preview of his own style of government. He even established a single party system in March 1975 – the Rastakhiz (Resurgence) Party – apparently tired of orchestrating two loyal parties and concerned lest one party be used as an opposition base.<sup>47</sup> The one difference between Iran and the situation he described was that throughout the 1960s oil was generating a great deal of ready cash which was used to bend or buy friend and foe. The mystical union of Shah and people owed much to the material benefits of the oilfields.

## Notes

1 Amin Alimard and Cyrus Elahi, 'Modernisation and Changing leadership in Iran', paper delivered to Persepolis Symposium, September 1975. Published as *Iran: Past, Present and Future* (New York, Aspen Institute for Humanistic Studies, 1976), p. 217.

2. Ibid., p. 218. For a penetrating early view of government and the role of kings, see Nizami ul-Mulk, *Siyasat Nama (The Book of Government or Rules for Kings)*, translated by Hubert Drake (London, Routledge and Kegan Paul, 1960).

3. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1974 edition), p. 35.

4. *Kayhan International*, 27 March 1976.

5. Denis Wright, *The English amongst the Persians* (London, Heinemann, 1977), pp. 181-3. This contains previously unpublished material from the Ironside diaries. Ironside's version contradicts slightly Mohammed Reza Shah's version which claims his father 'engineered the dismissal of the Russians'. Mohammed Reza Shah Pahlavi, *Mission*, p. 38.

6. Ibid., p. 39.

7. Ibid., p. 35.

8. Marvin Zonis, *The Political Elite of Iran* (Princeton, N.J., Princeton University Press, 1971), p. 124. Reza Shah's lack of education should not be taken out of context. At the time of his birth less than 10 per cent of the country's population were literate due to the absence of schools.

9. Zonis describes the marriage as the Shah's 'first great service to the monarchy, his country and legitimacy of his father's rule' (ibid., p. 20). Fawzia left the Shah in 1947 and was granted a divorce in 1948. She never liked Tehran and was

apparently unhappy with the Shah, though they produced a daughter, Princess Shahnaz. Princess Ashraf, the Shah's twin sister, also married an Egyptian, Ahmad Chafik, but as her second husband.

10. Ibid., p. 55.

11. Ibid., p. 56.

12. Mohammed Reza Shah, *Mission*, p. 47.

13. Ibid., p. 49.

14. Ibid., p. 322.

15. Ibid., pp. 54-5

16. The three other known attempts were on 19 May 1967 a commando group attacked the royal car but the Shah was not riding in it; on 4 June 1967 an Iranian student tried to use a car laden with explosives as an assassination device while the Shah was visiting West Berlin; in April 1973 a plot was uncovered to assassinate the Shah and kidnap the Empress. Two persons were subsequently executed for this plot.

17. Oriana Fallaci, *Interview with History*, translated by John Shepley (Boston, Houghton Mifflin, 1977), p. 269. This interview is the most revealing of his character of all the many granted to journalists during his reign.

18. Mohammed Reza Shah Pahlavi, *Mission*, p. 55.

19. Fallaci, *Interview*, p. 273.

20. *Kayhan International*, 11 November 1976

21. Ibid.

22. *Kayhan International*, 15 March 1976.

23. The Shah married Soraya Esfandiari in 1951 and divorced her in 1958 after a childless but apparently happy marriage. He told Fallaci of the break-up 'for a certain period of time, it was one of the greatest sorrows of my life. But reason prevailed very soon, and I asked myself the following question what must I do for my country? And the answer was find another spouse with whom to share my destiny and from whom to ask for an heir to the throne.' Fallaci, *Interview*, pp. 269-70

24. The title 'Shahanshah' derives from the fact that the ancient Persian monarchs had sovereignty over four kings Afghanistan, Georgia, Kurdistan and Arabistan (now Khuzestan but still called Arabistan in many Arab textbooks).

25. Mohammed Reza Shah, *Mission*, p. 296.

26. Interview with BBC reproduced in *Kayhan International*, 18 December 1976. 'Two things are not allowed in this country. One is communism which is outlawed. The second is insulting the person of the King who has been revered by our people for such a long time . . . First of all there are not more than 3,300 political prisoners and it happens to be that all of them are Marxists.'

27. The Shah comments in his memoirs: 'One day he [Qavam] told me that he wished I would either make all decisions or give him a completely free hand. It was obvious he wanted the latter.' *Mission*, p. 116.

28. 'Mossadegh had relatives of Qajar blood, and he himself bitterly resented my father's coming to power. His policy was clearly to do everything possible to discredit the Pahlavi dynasty and to advance slowly, a millimetre a day, towards exterminating it,' the Shah notes. *Mission*, p. 97.

29. Ibid., p. 105.

30. Zonis, *The Political Elite*, p. 70.

31. Anthony Sampson, *The Seven Sisters* (London, Hodder and Stoughton, Coronet edition, 1976), p. 132.

32. Gerard de Villiers, *L'Irresistible Ascension de Mohammed Reza, Shah d'Iran* (Paris, Plon, 1975), pp. 221-50. This is a racy account but includes material based on an interview with Kermit Roosevelt. Also see Andrew Tully, *Central Intelligence Agency* (London, Arthur Barker, 1962), pp. 91-101.

33. General Khatemi took over command of the Imperial Iranian Air Force in

1958. He was an outstanding athlete and a magnetic figure in the services. He was killed in a water ski-gliding accident on the Dez Dam in September 1975. While alive he was generally regarded as the man who would hold the armed forces loyal if anything were to happen to the Shah, the Air Force being crucial in this respect.

34. Mohammed Reza Shah Pahlavi, *Mission*, p. 105.

35. Zonis, *The Political Elite*, pp. 108-9.

36. Established one year later was the Imperial Iranian Inspectorate intended as a special watchdog body for the Shah with responsibility for also surveying SAVAK.

37. Assistance from Israeli intelligence has never been confirmed either in Iran or Israel, but the author is satisfied by the veracity of this assertion after checking in both Tehran and Tel Aviv. Since the end of the Kurdish revolt in 1975 Israeli intelligence has been less in evidence in Iran.

38. Zonis, *The Political Elite*, p. 43.

39. Mohammed Reza Shah Pahlavi, *Mission*, p. 105.

40. Zonis, *The Political Elite*, pp. 72-3.

41. Assadollah Alam, the then Prime Minister, said 86 people were killed. In a later interview he gave his views of what happened. See Margaret Laing, *The Shah* (London, Sidgwick and Jackson, 1977), pp. 168-9. The author has been told by ex-National Front members that the total of seriously wounded and killed was over 1,500. The estimate has been scaled down against anticipated exaggeration.

42. Zonis, *The Political Elite*, pp. 54-61.

43. De Villiers, *L'Irresistible Ascension*, p. 322.

44. *Iran Almanac*, 1977, p. 387.

45. Fallaci, *Interview*, p. 266.

46. Mohammed Reza Shah Pahlavi, *Mission*, p. 162. Later in the same chapter the Shah says: 'If I were a dictator rather than a constitutional monarch, then I might be tempted to sponsor a single dominant party such as Hitler organised or such as you find today in Communist countries' (p. 173).

47. In an interview with West German TV published in *Kayhan International*, 18 September 1975, the Shah said: 'The old system [multi-party] was no longer efficient, since whichever party was in power would claim all the benefits of progress and minority parties were 100 per cent the losers, despite the fact that they were totally loyal. With the new system minority politicians have been given a chance to participate and cooperate with the Government.'



PART II

CYCLE OF THE BOOM

It is the earnest hope of all Iranians, guided by their great leader His Imperial Majesty the Shahanshah Aryamehr and inspired by his wise commands, that this Plan will prove to be the spearhead of one of the country's most brilliant and significant transformations, and that its implementation will bring greater prosperity to the nation and its people, and guide Iran more rapidly to the period of the Great Civilisation.<sup>1</sup>

In January 1974 the Plan and Budget Organisation (PBO) began examining the effect of the new price of oil which had quadrupled during the course of the previous year. From the start the planners were under tremendous pressure. Their instructions were to draw up in as short a time as possible a blueprint of what to do with the oil money. The existing Plan, the Fifth Five Year Plan, due to run from March 1973 to March 1978, had been operating for less than a year. To begin making substantial alterations so early was bound to be disruptive, especially as there were already signs of an overheated economy; but the planners knew the Shah wanted a large upwards revision of expenditure and national goals to reflect Iran's dramatically altered position.

It was an unsatisfactory brief, to say the least. But it was made a little easier to execute by the fact that the PBO had already begun at the end of the previous year to consider raising the level of investment under the existing Plan. By July 1974, the PBO had prepared a framework for the revision of the Plan based on three alternative scenarios. The alternatives centred round public sector investment – the main motor for disbursing oil revenue. The scenarios were as follows: a 'modest' (31 per cent) increase in public sector investment from Rs1,548 billion\* to Rs2,028 billion; a medium (98 per cent) increase to Rs3,064 billion and a high (141 per cent) increase to Rs3,730 billion.<sup>2</sup>

At the same time the Ministries had been asked to submit their own individual estimates of their proposed new expenditure. These submissions, coupled with the alternative scenarios of the Plan, were presented at a special session of senior officials and Ministers, presided over by the Prime Minister, Amir Abbas Hoveida, at the mountain resort of Gajareh near Tehran. This was a workshop session during which the blueprint was redrawn. Then there followed a more formal meeting from 1 to 3 August at Ramsar on the Caspian, presided over by the

\*Iranian rials.

Shah, which approved the revised target of the Plan.

None of these crucial meetings was public except speeches by the Shah, and the local press neither sought, nor was allowed, to gauge how this restricted debate was conducted. The Iranian public was simply presented with the end result and attendant rhetoric like the chapter opening. The result was the doubling of expenditure to Rs4,698 billion (\$69 billion) and acceptance of a public sector investment target of Rs3,118 billion (\$45 billion) just above the PBO's medium scenario.

Versions of what happened during these meetings are fragmentary. According to Abdol Majid Majidi, Director-General of the PBO at the time, he was fully aware of the dangers of opting for high growth and seeking to spend so much money so quickly. He pointed out the problems inherent in the shortage of skilled manpower, the likely shortfall in electricity supplies, the inadequacy of construction materials and the bottlenecks in the ports.<sup>3</sup> He also maintained that this view was shared by the other Ministry most directly concerned with the economy, the Ministry of Finance (which had been reorganised in June 1974), and the Central Bank. The Finance Minister, Hushang Ansari, said he was fully aware of the problems of high growth but nevertheless approved a 'maximalist' approach.<sup>4</sup> However, pointing out the dangers of trying to spend too much too quickly was one thing, actually opposing such action was another. At Gajareh only certain officials of the PBO were willing to argue against the general mood that favoured spending as much as possible. Indeed according to one report, Majidi did not seek to defend very vigorously the views of people in his own Ministry.<sup>5</sup>

By the time of the Ramsar meeting there were really only three actors – the Shah, the Prime Minister Amir Abbas Hoveida, and Majidi. The decision on what to do was to be the Shah's: Hoveida was there like an obedient doctor to give the Shah the political pulse of the country, Majidi was the Harvard-trained technocrat with the statistics and the projections. The Shah through the alchemy of his leadership would turn this into national objectives in the march towards the Great Civilisation.

Back in December 1973, the Shah still sounded relatively cautious at least compared to his subsequent tone. He had announced that the Plan would be enlarged 'maybe by one third'. But he had given the impression that this was the upper limit because of the inflationary effects greater expenditure would have.<sup>6</sup> Yet by the time of the first meeting at Gajareh, he had abandoned earlier caution. His opening remarks to the Ramsar conference set the tone:

Those present at Persepolis where the original Plan was shaped can remember that I personally advocated higher goals, more difficult targets . . . I did so because in my own mind the future course of events entailing the Plan's revision had already been clearly designed.<sup>7</sup>

The Shah and Hoveida showed a certain contempt for the cautious views of the economists who could not see beyond problems to a broader vision of an industrialised Iran. The Shah was also dismissive of those who did not share his vision of Iran's future as the world's fifth industrial power by the turn of the century. Against conventional wisdom the Shah had opted for what was considered a very ambitious investment target of \$10.88 billion in the Fourth Plan (1968-72) and had been vindicated – largely as a result of the increased oil revenues arising from the 1971 Tehran Agreement, an agreement which the Shah himself had been instrumental in shaping.

It was this same sense of vindication that overcame any doubts about the possibility of achieving the new targets. As it was, the Shah had been impatient about the investment level in the original Plan of \$36 billion.<sup>8</sup> The main constraint had been the shortage of foreign exchange, and the consequent need to rely upon foreign borrowing. For oil revenues had been projected at a mere \$22 billion over the five-year period, covering 60 per cent of total expenditure. Now oil revenues were anticipated at \$98 billion, covering 79 per cent of expenditure (see Table 2). Thus it was beguiling to assume that with the foreign exchange constraint removed, the other constraints – especially manpower shortages and poor infrastructure – were not serious.

The sole success of the PBO at Gajareh and Ramsar was to prevent the adoption of a high-growth scenario. This had not been easy. At one stage the total submissions from Ministries and government agencies for public sector investment amounted to Rs4,096 billion (\$60 billion)! A senior official later commented:

Only a small proportion of the people discussing the revised Plan appreciated the enormity of the challenge it presented us. For most it meant an open cheque, and for those who did grasp the significance of revising the Plan I think they allowed themselves to be often overruled by their ideas of self-aggrandisement – regarding a large extra increase in their ministry's budget as mainly a reflection of their own importance, ignoring the problems that such an increase in expenditure would cause.<sup>9</sup>

Those that had doubts in the end stood silent out of fear, or in the belief that the realities of the situation would impose their own logic on the new Plan. The Shah genuinely seems to have believed that the problems underlined by Majidi could be solved and were subordinate to the lofty objective of accelerating the occasion of a self-sustaining economy, independent of oil. He told the assembled dignitaries at Ramsar: 'The Great Civilisation we promise you is not a utopia either. We will reach it much sooner than we thought. We said we will reach the gates in 12 years; but in some fields we have already crossed its frontiers.'<sup>10</sup>

### Main Objectives

The new Plan unveiled after Ramsar was a breathless example of what was going to become of the new Iran. In essence it borrowed what was convenient or eye-catching from a twenty-year macro-schema which the PBO had been working on at the time of the 1973 oil price rises. It was an impatient attempt to concertina the time scale to economic take-off. The real change was not one of substance but form: more money to be spent on bigger projects in a shorter time; better imported technology; more foreign experts and a host of marginal items that had seemed a luxury in the old Plan - especially in the military field. To the ordinary Iranian, it showed that more money was being spent on education, low-cost housing, food subsidies, health and jobs; to the infant bourgeoisie it offered better salaries in government and new possibilities to the private sector to benefit from the huge government injections of cash into the economy; to the armed forces it opened an accelerated vista of regional power through new weapons purchases; and to the outside world it was proof that Iran was on the move.

Taken individually, the objectives of each Ministry were not necessarily far-fetched or unreasonable. When put together, it became apparent that there were enough projects to cover not just the Fifth Plan but also the Sixth Plan that would follow in the five years after 1978.

The crude increases in investment over the original Plan can be seen in Table 1.

On the basis of this investment the annual average growth rate envisaged in the old Plan of 11.4 per cent was expected to rise to 25.9 per cent. An International Monetary Fund team visiting Iran in late 1974 described the three priority sectors:

Firstly considering Iran's comparative advantage, the petroleum and petrochemical sectors have been assigned high priority. Secondly, it

Table 1: Total Fixed Investment 1973-8 (billion dollars)

|                               | Original | Revised | Share of<br>Revised<br>Budget<br>% | Increase<br>on Original<br>Budget<br>% |
|-------------------------------|----------|---------|------------------------------------|--|
| Industry and mines            | 8.18     | 12.53   | 18.0                               | 53                                     |
| Agriculture/natural resources | 2.67     | 4.58    | 6.6                                | 72                                     |
| Transport and communications  | 2.79     | 7.29    | 10.5                               | 161                                    |
| Housing                       | 5.96     | 13.70   | 19.7                               | 130                                    |
| Oil and gas                   | 6.83     | 11.72   | 16.8                               | 72                                     |
| Others                        | 10.41    | 19.77   | 28.4                               | 90                                     |
| Total                         | 36.84    | 69.59   | 100.0                              |  |

Conversion based on \$1 = Rs 67.50.

Source: compiled from Bank Markazi annual report, 1974/5, p. 34.

is clear that considerable investments are required to overcome the anticipated bottlenecks in ports, the transportation system, the power section and in the supply of construction materials. Thirdly, the agricultural sector has been selected for special emphasis since industrial expansion requires greater agricultural inputs and expanded production of foodstuffs will be needed to meet increased demand for food engendered by rising incomes and high income elasticities.<sup>11</sup>

There was also an important social aspect to the revised Plan: it represented the first comprehensive attempt to lay the groundwork for a form of welfare state - free schooling, free school meals, food subsidies, and infant schemes for social insurance and public health. This was also to be matched by a major effort to provide popular housing.

The main financial features of the Plan were the importance of oil as a source of revenue, the small anticipated use of foreign loans, substantial investment abroad of surplus income, and accelerated repayment of foreign debts (see Table 2).

It is interesting to note how the plan document itself enumerates its objectives:

- (i) raise the quality of life for all social groups;
- (ii) maintain rapid, balanced and sustained economic growth, together with minimum price increases;

Table 2: Projected Overall Finances 1973-8 (billion dollars)

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|   |        |
|---|--------|
| A. Receipts                                   |        |
| 1. Oil and gas                                | 98.2   |
| 2. Direct taxes                               | 8.1    |
| 3. Indirect taxes                             | 9.1    |
| 4. Other receipts*                            | 3.7    |
| 5. Foreign loans                              | 2.2    |
| 6. Sale of bonds                              | 0.7    |
| Total   | 122.0  |
|   |        |
| B. Payments from General Revenue              |        |
| 1. Current expenditures                       | 50.2   |
| (a) general affairs                           | (6.7)  |
| (b) defence                                   | (29.2) |
| (c) social affairs                            | (11.1) |
| (d) economic affairs                          | (3.2)  |
| 2. Fixed capital formation                    | 42.2   |
| 3. Repayment of principal<br>of foreign loans | 6.0    |
| 4. Other payments                             | 13.4   |
| 5. Investment abroad                          | 11.0   |
| Total   | 122.8  |

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\* Includes \$2 billion revenue from public sector investment in, and loans to, other countries.

Source: Plan and Budget Organisation, *Revised Plan 1973-78*, p. 41.

- (iii) increase the income of various groups, particularly low-income groups;
- (iv) expand social, economic, political and cultural justice with particular emphasis on the equitable distribution of services among all social groups;
- (v) improve the quality and increase the supply of active manpower in order to raise productivity and eliminate development bottlenecks;
- (vi) preserve and improve the environment, with particular attention to the quality of life in large cities;
- (vii) develop science and technology and promote creativity;
- (viii) establish competitiveness in the production and export of goods;
- (ix) utilise foreign exchange reserves to the full so as to remedy domestic shortages and check inflationary pressures, and for foreign investment and the creation of sources of national

- wealth to replace depleting oil resources;  
(x) maintain and revive the nation's valuable cultural heritage.<sup>12</sup>

### The Boom Accelerates

At the end of the Ramsar meeting, few realised they had just agreed to a 'hyper-boom'. Even as the Shah pushed through this doubling of proposed expenditure, all the evidence pointed to dangerous overheating in the economy.

Oil revenues in the Iranian year 1973-4 (March to March) had raised *per capita* income from \$501 to \$821. This brought *per capita* income close to the \$850 target which had been projected for 1978 in the original Plan.<sup>13</sup> Every sector of the economy, with the exception of agriculture, evidenced dynamic growth. The industrial and mining sector during 1973-4 had raised output by 18 per cent. Increased industrial activity was reflected by an 81 per cent jump in iron and steel imports (responsible for 15 per cent of the non-military import bill). Industrial use of electricity increased 48 per cent. The number of new companies registered in large cities increased by 46 per cent to 2,208 and total capitalisation rose almost threefold to Rs52.8 billion.<sup>14</sup>

Yet over all there was a widening gap between supply and demand.<sup>15</sup> The Central Bank noted in its annual report, which was released in July 1974 (i.e. before Ramsar):

Shortages in building materials, the low rate of agricultural growth (as compared to other sectors) and scarcity of imported raw materials, combined with the infrastructure bottlenecks, created limitations in the supply of commodities and broadened the gap between aggregate supply and aggregate demand.<sup>16</sup>

Although tactfully expressed, the Bank's report was a clear signal of the problems ahead but the Central Bank itself had no authority and was merely part of the empire that Ansari sought to control from the Finance Ministry. Ansari, like the Shah, was committed to high growth and lofty targets. With exceptional management the Iranian authorities might have achieved a good part of their objectives. Instead they were swept along in a careless euphoria. Symptomatic of this carelessness was the sloppy production of the Plan document itself: the Iranian original approved by Parliament contained a large quantity of mathematical errors and literal mistakes.<sup>17</sup> Virtually everyone in authority had become dazzled by the power of new oil wealth, with oil revenues



now coming in at \$1.5 billion per month.

The immediate economic impact of the oil revenues was in current expenditure rather than new investment. The Plan expected current expenditure to account for 45 per cent of total outlays but in practice it absorbed 63 per cent, not least because the published defence allocations were placed under current expenditure, and defence was earmarked for 23 per cent of total spending.<sup>18</sup>

Table 3: Actual Revenues and Expenditures 1973/4, 1974/5  
(billion dollars)

|                    | 1973/4 | 1974/5 | Change (per cent) |
|--------------------|--------|--------|-------------------|
| Revenues           | 6.8    | 20.6   | +202              |
| 1 Oil and gas      | 4.6    | 17.8*  | +286              |
| 2 Other            | 2.2    | 2.8    | + 21              |
| Expenditures       | 7.1    | 16.9   | +138              |
| 1. Current         | 4.7    | 10.8   | +129              |
| (defence)          | (1.9)  | (5.5)  | (+189)            |
| 2 Capital          | 2.4    | 5.1    | +112              |
| 3 Advance payments |        | 1.0    |                   |
| Deficit/surplus    | -0.3   | +3.7   |                   |

Conversion based on \$1 = Rs 67.50.

\*This represents only eleven oil instalments from the Consortium since the twelfth had been held over following a dispute.

Source: Compiled from Bank Markazi annual report, 1974/5, p. 14.

The importance of current expenditure in global disbursements can be seen in Table 3. This table also illustrates the extraordinary change in Iran's financial position during the course of one year. More significantly, it demonstrates the ease with which Iran was able to absorb the increased revenue. The quantum jump in defence spending meant that defence expenditure in 1974-5 almost kept pace with the increase in total revenues. The government also embarked on a hurried programme of welfare measures and a whole new range of subsidies on services, commodities and foodstuffs. In 1974-5 over \$1.8 billion was spent on the purchase of such foodstuffs as wheat, meat and sugar, and their subsequent subsidised sale.<sup>19</sup> The rise in current expenditure also reflected the switch from credit to cash payments, and the settling of important outstanding domestic obligations.<sup>20</sup>

However, the high level of current expenditure was also due to a

slackening of budgetary discipline — perhaps an inevitable reaction from an administration that had been financially stretched throughout the previous 24 years of planned development. During the period of the Plan current expenditures were to average 18 per cent over budget.<sup>21</sup> This meant that from an early stage funds earmarked for capital investment were diverted into the day-to-day running of the government.

From the outset it was recognised that the new Plan would trigger powerful inflation which would in turn affect the cost of domestic investment. The IMF mission which visited Iran in late 1974 was particularly concerned by this problem. In its report it noted the Iranian response:

The Government is willing to pay this price [higher investment costs] in order to make use of the opportunity for accelerated development which has been provided by the increase in oil revenues. The authorities believe that sufficient domestic productive capacity should be established in certain major areas and the longer the expansion of these basic industrial sectors is postponed the more costly their development will become.<sup>22</sup>

Iranian officials, like other OPEC members, blamed imported inflation for their own rapid rise in costs. In 1974/5 the average cost of imports from the industrialised countries rose by 28 per cent.<sup>23</sup> The consumer was reportedly paying only 11.9 per cent, with the government covering the rest through subsidies and lower import taxes. That imported goods became more expensive — in some instances substantially more so — was incontestable. The industrialised countries were merely passing on the cost of the oil price rises, and one suspects using the quantum price leap as an excuse to hide previously unjustifiable cost escalations. Contractors, particularly in the military sphere, were quoting 'one price for Iran and the Gulf, another for the rest of our clients'.<sup>24</sup> Yet despite imported inflation the real cause lay in the frenetic release of extra funds.

The IMF mission advised authorities to reduce the planned level of the government's net domestic expenditure to avoid serious inflation, but this advice was ignored.<sup>25</sup> The boom, which had already begun before the Plan revision, had gathered momentum which was difficult to stop. Besides, none of the Shah's Ministers was willing to advise a cut-back in planned expenditure less than six months after Ramsar.

Money supply increased by 61 per cent as domestic expenditure continued to rise and the banks were allowed to continue a liberal

credit policy. Such an increase, between March 1974 and March 1975, was unprecedented; yet almost 37 per cent of the entire increase occurred in the final month of the Iranian year (20 February to 20 March).<sup>26</sup> Almost 40 per cent of the increase in loans by the commercial banks to the private sector took place in the last quarter, at a time when the Central Bank was exercising minimal credit control over the commercial banks. Some attempt to reduce credit expansion to the private sector had little effect because other measures like the reduction of import registration deposits and import registration fees caused a substantial fall in the demand for credit in what was a previously significant area. Meanwhile the government removed all credit limits on the specialised banks as they were promoting investment in industry and agriculture. In 1974/5 the specialised banks granted almost \$1 billion worth of loans, a 60 per cent increase; and in line with this their capital increased 44 per cent. The commercial banks, also undercapitalised for such an increase in their scale of operations, were obliged to raise their capital 100 per cent.<sup>27</sup>

Table 4: Money Supply and Banking System Assets (billion rials)

|  | 1973/4           | 1974/5           | Per Cent<br>1973/4 | Change<br>1974/5 |
|--|------------------|------------------|--------------------|------------------|
| 1. Foreign assets of<br>banking system<br>(foreign exchange) | 167.9<br>(154.2) | 544.2<br>(528.9) | 77.9<br>(90.6)     | 224.1<br>(243.0) |
| 2. Loans/credits to<br>private sector                        | 489.1            | 698.3            | 35.0               | 42.8             |
| 3. Public sector liabilities<br>to banking system            | 298.4            | 445.9            | 34.8               | 49.4             |
| 4. Public sector deposits<br>with banking system             | 209.9            | 364.3            | 58.9               | 73.6             |
| Money supply   | 207.7            | 327.2            | 27.7               | 61.4             |
| Quasi-money  | 313.1            | 502.9            | 30.1               | 60.6             |

Source: Bank Markazi annual report, 1974/5, pp. 15 and 148.

### Out of Control

By early 1975 the Iranian economy was almost out of control. During the first quarter of the new Iranian year (mid-March to mid-June) government spending was up 208 per cent on the same period the previous year. Over 40 per cent of the total planned credit allocation of

the commercial banks had been used up. Some banks had already exhausted their entire allocation for the year and were turning to the international market for short-term funds. Money supply was still increasing at 60 per cent per annum. Meanwhile imports, running at \$1.2 billion a month, were almost 100 per cent up on the same period in 1974.<sup>28</sup> Already the second main principle of the revised Plan had been abandoned: 'maintain rapid, balanced and sustained economic growth, together with minimum price increases'. Less and less was being achieved at greater and greater cost.

The development of the ports illustrates the point. The boom in expenditure stimulated imports and put even greater pressure on the already strained port infrastructure: in 1974 the volume of imports increased 39 per cent.

Port handling equipment was insufficient and poorly maintained. Maintenance in the southern ports with their high humidity and scorching summer temperatures was difficult and machinery was constantly breaking down. Because of the inclement climate it was difficult to find regular labour to operate a continuous shift system in the four hottest summer months (July and August temperatures at Khorramshahr, Bushire, Bandar Shahpur and Bandar Abbas go over 45 degrees). The southern ports handled over 80 per cent of all maritime imports with insufficient berthing space and very limited warehousing. All this was compounded by an elephantine bureaucracy which could require up to 28 signatures to clear goods from customs. Import licences were frequently the responsibility of more than one Ministry. A banker, for instance, spent over four months trying to clear a canoe from customs because the Ministry of War insisted on knowing what form of armament it carried and the nature of its radar system even though the Commerce Ministry had given prior approval.

At Khorramshahr, the principal port, over 200 ships were waiting to unload their cargoes by mid-1975: ships were having to wait 160 days and more before entering harbour. At one point more than 1 million tons of goods were being kept in ships' holds awaiting the opportunity to unload. It was a chaotic situation, only subsequently rivalled by the port of Jeddah in Saudi Arabia. Once the offloading of goods was speeded up, many goods lay around unwarehoused. At Khorramshahr 12,000 tons were being unloaded per day but only 9,000 tons were being removed per day. At the most congested point, in September/October 1975, there were over 1 million tons of goods piled up on the jetties and around the port.

Goods were cleared slowly for two main reasons. First, almost 50

per cent of the imports were government purchases, and Ministries took sometimes up to six months – and more – to clear them. Second, there were not enough trucks. A special emergency government purchase of 2,000 trucks and 6,000 trailers proved no remedy in itself. The trucks needed drivers and 2,000 more Iranian drivers were not available. As a further emergency measure it was decided to 'import' 800 South Korean and Pakistani truck drivers, but they were brought in hurriedly, without proper arrangements for accommodation or familiarisation with local conditions. They quickly became disenchanted, especially when they discovered that Iranian drivers were being paid higher wages. By July 1975 most of these drivers had left after less than six months. Finally, the government was forced to consider what it should have done in the first place – a crash course for Iranian drivers. This only filled the gap slowly, and a large number of unused trucks rotted in the hostile climate. Even in 1977 it was still possible to see rows of trucks, neatly parked at Bandar Abbas, that had been awaiting drivers for three years.

The delays in the ports were immediately transferred to the construction sites and other projects. There was a built-in delay of six months on the start up of virtually every project, added to which much of the goods suffered in poor handling, causing further delay. The cost is difficult to quantify. The only readily identifiable costs were demurrage charges for keeping ships waiting at anchor. In 1974/5 these cost Iran over \$1 billion, almost 5 per cent of total foreign exchange earnings. There were also disguised costs. Importers resorted to the quicker but more expensive form of international truck transportation, through Turkey, and air freight. The customs officials profited from the situation, pocketing large sums of money against often empty assurances of priority clearance. Delays in the ports almost certainly cost Iran much more than its imported inflation.<sup>29</sup>

Another key factor affecting development costs was the increase in the price of land. Once money began to circulate, property values were the first to rise, attracting the Iranian entrepreneur. Land values changed, not even by the month, but by the week. The rises were most dramatic in Tehran; but it was a country-wide phenomenon. An industrialist wishing to buy land in Tabriz in 1974 had to pay Rs45,000 per square metre (\$660) – land which could have been bought in 1971 for Rs5,000 per square metre. With the development of mining in Kerman, land in the centre of the town rose from Rs2,000 per square metre in 1959 to Rs15,000 in 1974. In Rasht on the Caspian, where industry began to be located after restrictions on expansion round Tehran, land

prices rose from a mere Rs20 per square metre in 1969 to Rs2,000 by 1974.<sup>30</sup>

As much as 47 per cent of the cost of housing was absorbed in land costs. In industrial development the proportion was not so substantial but it was nevertheless high. Land purchase was often a complex and lengthy affair. The Italian consortium, Italcontractors, building a new commercial port near Bandar Abbas, arrived with a preliminary work-force in December 1975. They were prevented from starting work by armed gendarmerie because there was a dispute about purchase of the land. The government was still negotiating the purchase price of what only two years before had been worthless land. Work on the site was delayed until May 1976, and this was one of the most *essential* infrastructure projects in the country.<sup>31</sup>

A side-effect of the spiralling cost of land was higher rents, and consequent demands for higher wages by the urban work-force, since housing had become the major element in living costs – up to 60 per cent of pay. It was soon recognised that the only way of ensuring a stable level of wage increases was to ensure adequate housing, particularly for the lower-paid. However, with the cost of land so high and a premium on quick profits, speculators opted for the upper end of the market, which aggravated the situation.

Wages rose in 1974/5 at an average of 30 per cent in the 21 major industries, according to official estimates.<sup>32</sup> This undoubtedly understated the trend. Substantial wage increases were officially encouraged as part of the Shah's policy of ensuring that wealth be more fairly distributed. The Ministry of Labour insisted that industrial workers were paid a minimum of an extra month's pay, going as high as 60 days' extra pay. The previous repressive attitude towards industrial action was softened because the Shah now had the means of producing loyalty from labour with money, not force. In 1974/5 strikes, work stoppages or go-slows generally centred round bargaining for improved end-of-year bonuses. The Ministry of Labour apparently on the Shah's orders only rarely took the management's side in such disputes. This was a tremendous spur to wage demands but there was no determined effort to tie higher pay to higher productivity.

Official support for increased wage demands was reflected in the not untypical experience of a factory near Tehran where there was a dispute over a profit-sharing bonus.

We came in at noon on a Wednesday and they [the workers] had all stopped work. They were standing or sitting by their machines. We

realised it was a strike or sit in. Thinking strikes were illegal we called in the SAVAK. They didn't appear until about four in the afternoon. And when they came they didn't seem to take much notice of the workers who were on strike. The next day we called in a lawyer who was an expert on labour relations and he didn't have much success either with the workers' representative. Then on Saturday after the weekend break they were still not working so we went with the workers' representative to the Ministry of Labour. It was strange, because the Ministry of Labour never once referred to them being on strike. We argued but in the end it was clear to us we had to give way - a 40 per cent increase in bonus payments. Profit sharing is just part of the cost of labour.<sup>33</sup>

More important still was the labour shortage. Ordinary labourers' income rose relatively slowly but skilled workers like welders, carpenters, machine-operators, mechanics, pipe-fitters or technically or professionally trained personnel could dictate terms. Scarce labour was poached and government workers often left for the higher-paid private sector. While an unskilled construction labourer was earning \$5.50 per day, a pipe-fitter could take home \$440-60 per month. A good bilingual secretary was being paid almost \$1,200 per month; an engineer just qualified (especially if the education had been abroad) could command over \$2,000 per month excluding perks; while a graduate manager aged thirty could demand over \$4,500 per month.<sup>34</sup>

The Shah was to comment over a year later, after salaries and wages had continued their upwards spiral, that an engineer could earn almost \$7,000 per month, 'several times higher than the salary of an engineer in Europe'.<sup>35</sup> Foreign and local contractors by mid-1975 discovered that it was cheaper to employ expatriates than Iranians, especially in projects in remote parts of the country. Kraftwerke Union, building two nuclear power stations at Bushire, offered official pay rates to Iranian labour but got few takers, and instead imported Turks and Yugoslavs. The high pay for skilled work, plus the various perks, made it difficult to assess the real overall wage increase. In 1974/5 it was almost certainly close to 40 per cent and probably higher. This meant an important increase in disposable income for Iranians; but the benefit was eroded by the cost of living.

Employment of foreigners was also an important inflationary factor. By mid-1975 there were some 35,000 foreigners living in Tehran alone - mostly Europeans acting as technicians, managers, advisers or foreign company representatives, including a sizeable portion connected with

defence and defence-related contracts. They were willing to pay almost any price for scarce accommodation, subsidised by companies hopeful of high profits from Iran. The country was held to ransom by its shortage of skilled manpower. It was expensive to attract expatriate skills to work in a harsh environment and in the defence field some American technicians were costing up to \$150,000 a year to work in Iran.<sup>36</sup> It cost Iran an average \$9,000 per month for American defence personnel in 1975 and by then there were some 20,000 defence and defence-related personnel. In many instances the 'software' side of defence contracts -- personnel, advisory and technical back-up, training of Iranians -- was more than half the cost of the whole contract.

Official figures were produced for inflation. But they were doctored to produce a publicly acceptable norm.<sup>37</sup> Published prices tended to reflect what they ought to have been, rather than what they were. The indices paid no attention to the tremendous shortages which forced individuals, companies and even government agencies to buy at black-market prices. For instance the four-door saloon Peykan car assembled in Iran was selling for 35 per cent above its list price because production was unable to meet demand. Yet even allowing for official reticence on inflation, the figures showed an accelerating trend. From March to August 1975 the consumer price index rose at an annual average of 28 per cent.<sup>38</sup> The real rate was probably nearer 35 to 38 per cent.

## Notes

1. Plan and Budget Organisation (PBO), *Iran's Fifth Development Plan 1973-78*, revised version, May 1975, v.
2. Information supplied to the author by PBO.
3. Comment to the author by Abdol Majid Majidi, 16 July 1977.
4. Comment to the author by Hushang Ansari, 4 May 1977. Ansari was insistent that those at the top were fully aware of the problems they faced.
5. Based on information supplied to the author by a senior official present at Garjareh.
6. In the Shah's press conference of 23 December, he had said, 'We are going to enlarge it [the Plan] a lot -- maybe by one third; but no more than that because we risk the creation of terrible inflation.' See *Kayhan International*, 25 December 1973.
7. *Kayhan International*, 2 August 1974. The local press played up references by the Shah to end corruption. This was considered to be one of the keynotes.
8. The original Plan had total fixed investment of \$32 billion. This dollar figure altered when the dollar/rial parity altered.
9. Comment to the author by an official present at Ramsar.
10. *Kayhan International*, 4 August 1974. The Shah also said it would be 'an unforgivable' sin to waste this 'unique opportunity'.
11. International Monetary Fund, staff report on Iran, January 1975, p. 4.



12. PBO, revised Plan, pp. 6-7.
13. Bank Markazi annual report, 1973/4, p. 14.
14. Ibid., p. 205.
15. In 1973/4 the official index of wages in 21 major industries showed an annual average increase of 27 per cent. This almost certainly understated the trend.
16. Bank Markazi annual report, 1973/4, p. 62.
17. Comment to the author by Roger Cooper, translator of the PBO's revised Plan.
18. This percentage excluded military construction which was placed under 'other Government buildings'. See PBO, revised Plan, p. 388.
19. Bank Markazi annual report, 1973/4, pp. 35-9.
20. Repayment of domestic obligations totalled Rs35.1 billion.
21. Capital expenditure for instance was \$7.47 billion in 1975/6; \$9.94 billion in 1976/7. \$13.89 billion (projected) in 1977/8 while current expenditure during the same period was respectively \$13.75 billion; \$17.46 billion and \$18.36 billion (projected) – equivalent to 64 per cent, 63 per cent and 56 per cent of the General Budget (PBO figures supplied to author).
22. IMF report, p. 4.
23. Bank Markazi annual report, 1974/5, p. 74.
24. Based on information supplied to the author by numerous foreign contractors.
25. IMF report, pp. 6-8. The mission felt that any increase in money supply above 40 per cent would accentuate 'the upward pressure on prices'.
26. Bank Markazi annual report, 1974/5, p. 48.
27. Ibid., pp. 47-52. Commercial banks' capital increased from Rs28 billion to Rs56 billion.
28. *Financial Times*, 27 August 1975.
29. Based on information supplied to the author by the Ports and Shipping Organisation; shipping companies and Conference Lines. See also *Kayhan International*, 19 November 1975; *Tehran Journal*, 23 November 1975 and 18 July 1976; and *International Herald Tribune*, 13 March 1976.
30. Translated from an article in *Rastakhiz*, 11 August 1976.
31. Based on information supplied to the author by Italcontractors.
32. Bank Markazi annual report, 1974/5, p. 183.
33. Comments to the author by an expatriate plant manager. The incident occurred in March 1976.
34. Information gathered by the author in Tehran during late 1975.
35. Interview by the Shah with Associated Press, December 1976.
36. Ibid.
37. Based on comments by an expatriate economist who assisted in the preparation of a new price index in 1976. Iranian economists also express great suspicion at all official figures. In this context Julian Bharier in *Economic Development of Iran: 1900-1970* (London, Oxford University Press, 1971) stresses the unreliability of Iranian statistics.
38. Bank Markazi annual report, 1974/5, p. 74.

# 6

## LIMITS TO OIL WEALTH

*Question* Critics say Iran moved at a pace so rapid it was economically unsound

*Answer* Why? Because we will have a 17 percent growth rate this year? Is this bad? Last year we had a 42 percent growth rate, but a 20 to 22 percent inflation rate. This year we will have zero inflation. Is this what bothers the critics?<sup>1</sup>

*Question* Looking back to 1975 do you confirm the view that your country's development projects were somewhat too ambitious?

*Answer* Perhaps. Perhaps it is so. Definitely.<sup>2</sup>

The contrast between the Shah's bullish first response in February 1976 and the more pensive answer in the second interview in December reflects the transformation that occurred in Iran during 1976.

The warning signals that Iran was overspending had come much earlier, but the response had been muted. In July 1975 for instance the Finance Ministry authorised foreign borrowing by government agencies.<sup>3</sup> Only seven months previously this had been thought unnecessary before 1978.<sup>4</sup> At the same time the instructions were sent to all Ministries to observe 'the utmost care and economy', to be followed by an order to submit monthly accounts to the PBO for scrutiny.<sup>5</sup> But like many orders in a faction-riven bureaucracy, this was half observed, diluted, or the figures distorted to give the impression that orders were being obeyed.

Belatedly the Central Bank (Bank Markazi) reacted, invoking classic instruments of monetary control. In August 1975 the ratio of obligatory deposits on short-term borrowing abroad was raised from 15 per cent to 30 per cent—a measure designed to deter the banks from getting round their credit ceilings by borrowing abroad. Simultaneously the minimum reserve requirements were raised, and the import deposit guarantee (reduced only the previous year) was also raised. Though limited, these measures helped to bring the expansion of money supply down to a more manageable annual growth of 36 per cent by the end of 1975.<sup>6</sup>

The Shah's reaction was essentially political and was concerned to forestall any resentment among the poorer sections of the community who felt oil wealth was passing them by or was making life more difficult. First, he reactivated a languishing scheme of compulsory divesti-

ture by manufacturing companies of 49 per cent of their shares to their employees and the public. Second, he instituted a sweeping curb on prices by rolling back the prices of some 16,000 items to January 1974 levels. Profiteering was outlawed in a well publicised campaign which led to the arrest of 7,750 persons in the first two weeks of operation.<sup>7</sup>

These measures were instituted in July but began to take hold in August. They were hastily introduced palliatives which diverted attention from the real issues: the social objectives of the revised Plan were being undermined by an accelerating urban/rural and rich/poor gap; while the economic objectives were being undermined by inadequate infrastructure, lack of skilled labour and an alarming increase in costs and overall wastage. The lack of forethought for the wider economic consequences of these countermeasures merely underlined their political motivation.

### Political Gestures

The share divestiture scheme was an industrial replica of what happened with land reform thirteen years before. Both were aimed at giving underprivileged groups the semblance of more of the national cake. Both were hurriedly introduced and subsequently revised. Share participation was made the thirteenth principle of the Shah-People Revolution and anti-profiteering the fourteenth on 8 August 1975. Earlier, 320 companies had been listed as eligible for the scheme, whereby shares should first be offered to the employees and then to the wider public.<sup>8</sup> The companies were broken up into three groups, a first batch of 106, to be followed by a further 108 and then the remainder — all of whom were expected to have completed their 49 per cent divestiture by October 1978.

It was reckoned that some 1 million industrial workers would benefit, plus a further 2.7 million in agriculture. To facilitate the purchase a special government-financed credit institute with a Rs1 billion (\$15 million) capital was established. This institute could provide up to Rs100,000 credit to employees at 4 per cent over ten years, to be repaid by dividend or capital gain on sale. On the assumption that not all shares would be taken up, an investment company was also formed (National Investment Company of Iran, NICI) with a \$150 million capital subscribed by the banks and insurance companies.<sup>9</sup>

This sounded fine in theory, and undoubtedly had an important psychological impact among industrial workers. But, like Land Reform, it excluded those who were least privileged. In the case of Land Reform it was the landless labourer; and in industry it was the workers in the

small company who accounted for over 70 per cent of the industrial labour force. Also the scheme did not relate to control of industry, it was merely concerned with providing a sense of participation and greater financial gain. The move was not anti-business nor anti-capital (banks were excluded), nevertheless the industrialists reacted with alarm, fearing that this was the beginning of state intervention: a fear perhaps exaggerated by the previous cotton-wool treatment industrialists enjoyed. There was also a widespread fear that the share price evaluation by the government would be artificially low.

In many respects these fears proved groundless. The government timetable was impossibly ambitious. It also became clear fairly quickly that 320 companies could not be found to fit the original set of criteria for the scheme. By July 1977 only 151 companies had distributed 20 per cent of their scheduled 49 per cent. Certain changes were made to appease the industrialists, the most important of which was the raising from 6 per cent to 14 per cent the proportion divested that could be paid in cash by the government. By July 1977 72,235 industrial workers and 125,745 farmers had benefited from the scheme - a much smaller number than anticipated in 1975.<sup>10</sup>

However, the fears of the business community had an important impact on investment, which fell off sharply at the end of September 1975. Fearing closer monitoring by government and higher taxes, the instinctive reaction was to transfer profits and liquid cash abroad: a move facilitated by the relaxation of previously rigid exchange controls in December 1974. The flight of capital was in one sense aided by the share divestiture scheme, which turned industrial assets into cash in a country with a strictly limited capital market. A number of foreign companies affected by the scheme, especially those with American equity, reacted unfavourably. The share participation scheme was one of the chief reasons which led General Motors to seriously contemplate pulling out of Iran or withdrawing its name from its Iranian car assembly operation. GM, in fact, is said to have agreed to stay on in September 1975 only after specific guarantees from the Shah over privileged treatment and high-level White House consultations following a threat by the Shah to cancel the \$2 billion F-14 contract with Grumman.<sup>11</sup> The scheme prompted B. F. Goodrich, one of the first US companies to enter a joint venture in Iran, to sell up its 58 per cent stake in 1976.

However, the share participation scheme was not alone responsible for damaging business confidence. The anti-profiteering campaign and the 'price war' also played an important part. This campaign was a crude effort to brand the entrepreneur and the tradesman as the chief

culprit of higher prices. Among those arrested were two of Iran's more successful businessmen, Habib Elghanian and Mohammed Wahabzadeh. Elghanian had built up a large plastics business with extensive retail outlets, while Wahabzadeh was mainly concerned with cars, being sole agent for BMW. A summons was also served *in absentia* on Habib Sabet.

High profits were being made and some unscrupulous merchants were taking advantage. Yet profiteering was a symptom, not a cause. The cause lay in the inability of production, or imports, to meet demand. The campaign was also highly selective, and it was significant that the most vigorous action was taken in those areas where the aspiring middle class had been most affected – for instance the rising costs of buying and maintaining a car. Vahabzadeh was accused of selling BMW cars for Rs1.08 million instead of Rs800,000.<sup>12</sup>

Imposing draconian price controls in a severely overheated economy was inevitably disruptive and ultimately counter-productive. Matters were not helped by the bands of ill-informed inspectors, frequently students, sent out to check prices and decide sometimes with complete arbitrariness the correct price for a product. The price war was the first political test of the newly formed single party, Rastakhiz; and on at least one occasion youths in the name of the party and the municipality sacked a Tehran supermarket, said to be overcharging, in a manner reminiscent of the Red Guards during the Cultural Revolution in China. The party subsequently admitted that its involvement in the prices campaign was a mistake – or rather that it would not be repeated.

As a whole the price campaign was a failure. Official indices went down for six months but black-market prices for essential commodities rose sharply. The shortages were not relieved, and if anything became more pronounced. Importers decided in many instances that if controls were to be placed on profit margins of products it was more economic not to import at all: the same applied to local manufacture. Elghanian's plastics operation, arguably the most efficient in Iran and marketing the most sophisticated range of products, closed down, never to reopen. Sabet, aged 72, stayed in Paris, refusing to return to run his empire and sought to put his capital elsewhere.

The anti-profiteering campaign and price controls also had a damaging effect on the ports. Because goods had been 'under-invoiced' the government fixed the price and profit margin on the price declared. This meant that importers were being made to sell at below cost price. Although a clever ruse by the government to encourage the importers to be more honest, it backfired. Rather than declare the real price or

accept the fixed price, many importers preferred to just leave their goods unclaimed. As much as 40 per cent of all goods lying on the quays at Khorramshahr was unclaimed in 1975. By the time the customs came to auction them the goods were frequently too badly damaged to be worth buying, so continuing to clutter the port.<sup>13</sup>

More importantly, an important opportunity to overhaul the country's distribution network was wasted. Reducing the middle man's profits did not solve the key question of getting goods quickly and efficiently into the market. The technocrats in the Ministry of Commerce would have liked to have seen this happen but the political will was lacking.

The obstructive tactics of the merchants, mainly the traditional merchants of the Bazaar, proved too strong, and the Shah was neither ready nor willing to risk a confrontation. Indeed to mollify the merchants, Commerce Minister Fereidoun Mahdavi was removed on 7 February 1976. He had been the main champion of reorganising distribution including the creation of a model market like London's Covent Garden (a scheme which was shelved with his demise).<sup>14</sup> Some considered it significant that the bigger names prosecuted in the anti-profiteering or prices campaigns were often outsiders – members of the Bahai sect, like Sabet, or Jews, like Elghanian – who were resented by the Bazaaris.

### **Oil as a Variable**

The dampener on the boom came not from inside Iran but outside. Oil sales failed to meet expectation and revenues fell. By December 1975 oil production was running 20 per cent below the same period the previous year. For the year as a whole the average daily production was almost 12 per cent down.<sup>15</sup>

Throughout the summer sales had been slack. A surge of buying just prior to the biannual OPEC meeting in Vienna in September 1975 proved a temporary phenomenon. Continued world recession and a mild European winter kept international demand sluggish. Iran was especially affected because of the nature of its crude oil – a 'light' crude of high quality with a low sulphur content, and a 'heavy' crude with a higher sulphur content suitable for fuel oil.<sup>16</sup> The heavy crude was most similar to that of Kuwait, while the light competed with the high-volume crude of Saudi Arabia. Normally Iran exported a ratio of 52/48 light/heavy. However, the mild winter severely affected demand for fuel oil, and through the complex OPEC pricing system that differentiated various types of crude, Iranian heavy oil became uncompetitive, especially when both Kuwait and Saudi Arabia reduced the price of their

heavy crude and Iran refused to follow suit.

The drop in revenue was keenly felt because it came in the last quarter of the Iranian year when Ministries traditionally spent the larger part of their budgets. The government resorted to a simple, but effective, expedient: payments to contractors were abruptly halted. By March 1976 as much as \$3 billion was owed to contractors by government departments.<sup>17</sup>

The new budget had to be recalculated and appeared six weeks late at the end of February. As a result of a 14 per cent drop in oil purchases by the Consortium, officials estimated a revenue shortfall of \$2.7 billion. The budget for 1976/7 showed a deficit of \$2.4 billion, with substantial resort to international borrowing.<sup>18</sup> It was as much a surprise to the Iranians as the international community that the situation should change so quickly.

In broader terms these developments, which had such a traumatic effect on the Iranian economy, reflected two important trends: the increased inter-dependence of the oil producers and the consumers; and the changing nature of OPEC leadership. With the 1973 price rises the producers sought to rectify in one move the historic price anomalies of the oil industry. But having done this, price became very sensitive to market forces. For instance, Iran would have sold more crude almost certainly if the price of heavy crude had been adjusted in line with Kuwait and Saudi Arabia in the winter of 1975. Later NIOC found that to expand sales it had to offer substantial discounts.<sup>19</sup>

The price sensitivity of oil was reflected in the relatively modest increases approved by OPEC: at Vienna in September 1975 10 per cent; at Bali in May 1976 a price freeze; at Doha in December 1976 the OPEC majority accepted 10 per cent with Saudi Arabia and the UAE opting for 5 per cent; at Stockholm in July 1977 Saudi Arabia agreed to realign its prices; and at Caracas in December 1977 a freeze for 1978 was agreed. In other words the 1973 price rises were – for the foreseeable future – a once-and-for-all leap, to be followed by regular but modest increases.

This trend was reflected in Iran's vital foreign exchange receipts from oil and gas. After an increase of 200 per cent in 1974/5, the increase dropped in the following year to 2 per cent (see Table 5). In the two years from March 1975 to March 1977 receipts grew at an average of just under 5 per cent. Yet during the same period total expenditure increased three times as fast.<sup>20</sup> While the 1973 price increases were so substantial that outlay could not match revenue, the succeeding increases were so small that the reverse was true.

Table 5: Balance of Payments (billion dollars)

|  | 1973/4 | 1974/5 | 1975/6 | 1976/7 |
|--|--------|--------|--------|--------|
| 1. Current Account                       |        |        |        |        |
| Current Receipts                         | 6,232  | 20,922 | 21,971 | 24,385 |
| A. Revenue from OSO                      | 4,490  | 16,216 | 17,296 | 16,726 |
| Revenue from others                      | 182    | 862    | 700    | 622    |
| Purchase of foreign exchange from NIOC   | 186    | 1,445  | 874    | 3,140  |
| Purchase of foreign exchange from others | 215    | 149    | 183    | 159    |
| B. Gas sales to USSR                     | 87     | 131    | 202    | 183    |
| C. Export of goods                       | 548    | 563    | 448    | 462    |
| D. Services                              |        |        |        |        |
| Private sector                           | 326    | 598    | 966    | 1,929  |
| Public sector                            | 198    | 958    | 1,302  | 1,164  |
| Current Payments                         | 5,879  | 12,393 | 19,025 | 20,038 |
| A. Import of goods                       | 4,966  | 10,633 | 15,924 | 15,715 |
| B. Gold (non-monetary)                   | 3      | 11     | 122    | 260    |
| C. Services                              |        |        |        |        |
| Private sector                           | 372    | 803    | 1,429  | 2,550  |
| Public sector                            | 310    | 614    | 1,251  | 1,219  |
| Interest paid                            | 228    | 332    | 299    | 294    |
| Balance                                  | +353   | +8,529 | +2,946 | +4,347 |
| 2. Capital Account                       |        |        |        |        |
| A. Inflow of official long-term loans    | 1,296  | 257    | 300    | 560    |
| B. Inflow of private loans and capital   | 209    | 445    | 661    | 400    |
| C. Repatriation of official capital      |        |        |        | 518    |
| D. Repayment of debts                    | -541   | -1,313 | -729   | -710   |
| E. Foreign aid, loans and investments    | -1     | -2,388 | -2,941 | -1,771 |
| F. Other payments                        | -48    | -221   | -912   | -838   |
| Errors/omissions                         | 109    | -199   | -298   | -464   |
| Overall balance                          | 1,024  | 5,076  | 991    | 2,025  |

Source: Bank Markazi.

Moreover Iran was severely affected by the two-tier price structure that evolved at Doha in December 1976. In January 1977 sales slumped 30 per cent, obliging the government for the second year running to rewrite the budget at the last minute.<sup>21</sup> Over \$3.5 billion was pruned from expenditure and the revenues for the coming year were recalculated anticipating a 10 per cent drop in over-all oil sales, and a reduced



growth target of 13 per cent.<sup>22</sup>

Since oil had been expected to underwrite 78 per cent of the revised Plan, the impact of such fluctuations in international demand was dramatic. Iran had returned to the unstable conditions of the 1950s when the size of the oil revenue had never been certain. The PBO Minister, Abdol Majid Majidi, acidly commented at the time of rewriting of the 1977-8 budget: 'The drop in oil exports indicates that the Government is now confronted with fluctuating income from this source.'<sup>23</sup>

Market conditions were not the only key issue. Of equal significance was the political stance of Saudi Arabia within OPEC. In 1973 Iran had been at the zenith of its influence within OPEC; but this dominance was dependent on Saudi and Iranian interests coinciding. Once the historic price rise had been achieved, Saudi Arabia had diametrically opposite interests to Iran. With a production potential twice Iran's yet a population ten times as small, Saudi Arabia did not need maximised revenue. Indeed high oil price rises were viewed with positive alarm in Riyadh. The opposing interests of OPEC's two biggest producers were exposed at Vienna in September 1975. Iran sided with the hawks within OPEC and initially supported a 21 per cent rise proposed by Iraq. Although this move was subsequently explained as a tactic to achieve a 15 to 16 per cent rise, it completely misjudged Saudi intentions.<sup>24</sup> The Saudi Oil Minister, Sheikh Ahmad Zaki Yamani, refused to go above 10 per cent, backing this up with the threat of raising production and selling at the Saudi price. The rest of OPEC acceded.

There was similar confrontation right through to the Stockholm meeting of OPEC in July 1977. Saudi Arabia was always able to impose either a price freeze or moderate rises. During this period, the Shah, who dictated oil policy, continually underestimated the Saudi position and their capacity to enforce it. The Shah seemed unable to accept changed political circumstances – witness his refusal to lower the price of Iranian heavy crude until three months after the Saudis in February 1976.<sup>25</sup> Within NIOC there was opposition to the Shah's general policy of trying to lead the international market on prices. A more pragmatic approach was favoured but this only appeared at Stockholm and at Caracas in December 1977.

The strength of the Saudi position is twofold. With enormous accumulated surplus and a small population it can cope with fluctuations in world demand, no matter how sharp. Second, the sheer size of Saudi productive capacity means that OPEC cannot afford to ignore a threat of raised production and a flood of cheap crude. To a significant degree

Iran had become dependent upon Saudi Arabia for the level of its oil revenues. Unprecedented personal attacks on Sheikh Yamani after the Doha meeting published in the officially controlled Iranian press only served to underline this sense of frustration.<sup>26</sup>

### **Full Circle**

Although the changed oil scene affected revenues, there was a general reluctance at the top to alter objectives in early 1976. The Shah was still unwilling to admit that things had gone wrong. The 1976 budget sought to increase total expenditure by 27 per cent to \$44.7 billion. The Shah was determined to press ahead with military spending. Instead of paying in cash or against credit, he now sought to barter crude oil. In April 1976 three-cornered discussions were initiated with oil companies and arms suppliers. Two deals were proposed (1) the purchase of up to 300 F-16s from McDonnell Douglas and 4 Spruance Class destroyers from Lytton Industries to be acquired via the sale of 300,000 barrels per day of crude by NIOC to be marketed to two American oil companies, Ashland and New England Petroleum, (2) the purchase of tracked Rapier missiles worth £400 million from British Aircraft Corporation (BAC) via the sale of 16,000 barrels per day of crude to be marketed by Shell.<sup>27</sup>

Subsequently barter was used outside the military sector and there was scarcely a large contract for which payment was not considered on this basis. The Iranian tactic was to keep barter as an option available when convenient.<sup>28</sup> Since such deals were highly complicated to arrange, foreign suppliers were generally reluctant to accept them. The first barter contract was with BAC, concluded on 18 November 1976.<sup>29</sup> The basic problem for the Iranians was that some form of discount had to be included in the sale of the crude and the deals were very time-consuming, especially where more than one supplier was concerned in a single contract.

The emphasis on barter served to underline a growing sense of unease among the technocrats over the way the revised Plan had developed. In July 1976 a critical report from the PBO circulated to Ministries and government agencies. It pointed out bluntly that agriculture was being ignored, that production and labour costs had risen so fast in the past three years as to jeopardise the future of Iranian non-oil exports, and that the bottlenecks had been ineffectually tackled. The conclusion was slower growth and tighter control on government spending. This document was never published.<sup>30</sup>

Although the public were kept ignorant some of the more marginal

Table 6: Budget Receipts and Expenditure (billion dollars)

|  | 1975/6 | 1976/7 | 1977/8* |
|--|--------|--------|---------|
| 1. General Budget  |        |        |         |
| (a) Taxes  | 3.84   | 4.39   | 5.89    |
| (b) Oil/gas  | 17.68  | 19.98  | 19.47   |
| (c) Domestic loans   | —      | —      | 2.12    |
| (d) Foreign loans  | 0.08   | 1.14   | 1.41    |
| (e) Special revenue  | 3.14   | 0.64   | 0.95    |
| (f) Other  | 0.91   | 0.98   | 1.18    |
| Sub-total  | 25.6   | 27.2   | 31.02   |
| 2. Total state receipts<br>(including state<br>enterprise borrowing) | 32.76  | 44.73  | 49.17   |
| 3. Total expenditure<br>(including state enterprises)                | 32.76  | 44.73  | 49.17   |
| 4. Gross deficit   | —      | 2.05   | 1.74    |

\*Projected

Rs70.5 = \$ 1

Source: Plan and Budget Organisation.

projects began to be shelved. Talks on the construction of a new naval base at Chah Bahar on the Indian Ocean were dropped. This was the first indication that the Shah was being obliged to cut back. Ministries scrutinised their budgets and optional extras were pruned. For instance orders for up to 24 extra French turbo-trains were cancelled. The turbo-train was to provide fast inter-city transport; but on the Tehran-Meshed run the poor track reduced maximum speed by 40 per cent. The trains, a splendid symbol of modernism, were ill suited to the hot dry climate and frequently broke down, so requiring expensive expatriate technical back-up.

It was not until October 1976 that the Shah chose publicly to denounce the euphoria that had been generated by the 1973 oil price rises. The editor of *Kayhan*, Amir Taheri, expected a routine birthday interview. Instead it turned into a lengthy auto-critique of the past three years. Iranians had been living in a fool's paradise unaware that there was a definite and relatively short timescale for the duration of oil money. Oil alone had been responsible for the subsidies, the low taxes, the initiation of welfare, the sudden leap in living standards. Unless

people were prepared to work harder, produce more and pay higher taxes there would be nothing to replace oil, he said.<sup>31</sup>

'We have not demanded self sacrifice from people: rather we have covered them in soft cotton wool. Things will now change. Everyone should work harder and be prepared for sacrifices in the service of the nation's progress,' he said grimly. This was almost exactly the opposite of what he had told the nation at Ramsar in August 1974. Compare what he said then: 'We do not expect Iranians to tighten their belts, eat less and labour away for the promised heaven which is put off by a year every day. We try to offer the nation the welfare and care we have promised today.'<sup>32</sup>

Within two weeks of this interview, the Shah announced the creation of an Imperial Commission to investigate wastage. The Commission was composed of government representatives but more importantly members of the Shah's own special watchdog investigative body – the Imperial Inspectorate – and the security services, SAVAK.<sup>33</sup> It was the first real attempt to find out what was going on in the economy: and it was to report direct to the Shah, not the Ministries. In keeping with the new mood, profligate spending disappeared and was replaced by parsimony. The 1976/7 budget was underspent. It was now policy to finish what had been begun and leave major initiatives to the Sixth Plan, no matter if they had been expressed objectives of the revised Plan.

## Notes

1. Shah interview with *Newsweek*, 1 March 1976. In the same interview he is asked 'Is the boom over?' His reply 'Not at all.'
2. Shah interview with *Der Spiegel*, published in *Kavhan International*, 8 December 1976.
3. Comment to the author by Hushang Ansari, Minister of Finance, July 1975.
4. *Financial Times*, 17 December 1974.
5. *Kayhan International*, 8 July 1975.
6. Bank Markazi annual report, 1975/6, p. 15.
7. *Kayhan International*, 8 August 1975.
8. The criteria for selecting the 320 companies were the following: registered capital of Rs100 million or over; or fixed assets exceeding Rs200 million; or turn-over exceeding Rs250 million. The combined capital of the first 106 companies was the equivalent of \$707 million.
9. *Financial Times*, 28 July 1975.
10. *Financial Times*, 25 July 1977.
11. Based on information supplied to the author by GM Iran general manager, Lew Wilkins.
12. *Tehran Journal*, 18 August 1975.
13. *Tehran Journal*, 23 July 1976.
14. Fereidoun Mahdavi also seems to have been blamed for the excesses of the

Rastakhiz Party during the prices campaign.

15. Average daily production was 5.3 million barrels per day against 6.02 million barrels per day in 1974.

16. Iranian light crude oil is classified as 34 degrees API; and Iranian heavy crude is 31 degrees API.

17. This was an unofficial figure accepted by the Bank Markazi and used in the US Embassy Tehran's semi-annual trends in May 1976. The situation was eased when the government released new funds from the budget.

18. The foreign borrowing envisaged was by state enterprises. During the year the government was obliged to raise the ceiling for these enterprises on domestic borrowing from \$227 million to \$1.04 billion and on foreign borrowing from \$481 million to \$1.7 billion.

19. NIOC was offering discounts in the form of extended credit. The normal payment period for NIOC clients was 60 to 90 days but in some cases this was now extended to 180 days.

20. Bank Markazi annual report, 1975/6, p. 51.

21. At the time it seemed the Iranian government had overreacted. Justifying the Iranian position, Dr Jamshid Amouzegar, Minister in Charge of OPEC told the author on 28 April 1977: 'The position taken by the representative of Saudi Arabia was such that I thought they are tying it [the price] to a political solution in the region.'

22. *Financial Times*, 22 February 1977.

23. *Kayhan International*, 12 January 1977.

24. Based on information supplied to the author by Dr Amouzegar, 13 October 1975. It was not Amouzegar's view that Iran had misjudged the Saudis. (Amouzegar and Yamani enjoy a mutually antagonistic relationship.)

25. Iranian heavy crude was reduced by 9.5 cents to \$11.40 per barrel. After the Bali meeting of OPEC in May 1976, Iran agreed with other Gulf producers to make a further 7 cents per barrel cut.

26. The Saudi decision was not Yamani's but he was used as a whipping-boy not to over-embarrass relations. Saudi hesitancy about raising production to beyond 11 million barrels per day was in part due to a desire not to exacerbate the situation.

27. Based on information supplied to the author by General Toufanian, Vice-Minister of War, 9 August 1976.

28. Based on information supplied to the author by Finance Minister Hushang Ansari, 4 May 1977. Ansari was in charge of co-ordinating the barter deals.

29. The oil was sold to BAC who then by an agreement with Shell had it marketed for a fee.

30. Based on a copy of the document shown to the author.

31. *Kayhan International*, 26 October 1976.

32. *Kayhan International*, 2-3 August 1974.

33. *Iran Almanac. Echo of Iran*, Tehran, 1977, p. 114.

## 7 SUCCESSES AND FAILURES

This period of transition began when a great deal of money came our way precisely at a time when we did not have the means of spending it.<sup>1</sup>

The official justification for trying to accomplish so much so quickly was that the maximum could only be achieved by aiming high and stretching the nation's ambition. The problem lay in not establishing priorities to channel the nation's energy.

At the outset of the revised Plan there was no fixed system of priorities but every government agency assumed it had priority, so that when raw materials, manpower -- and subsequently funds - became scarce there was a scramble for these resources far more disruptive than any of the individual extravaganzas. Marginal projects died or were shelved: it mattered little that the revised Plan's commitment to buying three Concorde was forgotten.<sup>2</sup> However, it did matter that there was no specific priority on the completion of essential infrastructure projects and the training of manpower *before* setting out to build 810,000 urban housing units or direct reduction steel plants.

It has been suggested that the absence of clear priorities was presentational and that in practice the Shah and his Ministers knew very well what they wanted.<sup>3</sup> This may be, although a detailed look at the implementation of the revised Plan raises serious doubts.

### Impossible Targets

#### *Housing*

The government was pledged to make a major new effort in housing. It was seen as an essential part of the transformation of Iran and a significant element in satisfying socio-economic aspirations aroused by the country's increased wealth. Accordingly government credits to housing were raised 129 per cent and accounted for 17 per cent of total allocations for Social Affairs.<sup>4</sup> In terms of new units, the Plan proposed 810,000 in urban areas and a further 240,000 in rural areas; the bulk to be built by the private sector.<sup>5</sup>

This target was based on a 1972 survey showing the urban areas to be at least 1.1 million units short. However, wanting to meet the shortage and being able to do so were two separate things. Throughout the Fourth Plan (1968/9-1972/3) a total of 290,000 units were built and at

no time had the rate of annual construction topped 100,000 – despite a major building boom. Even the original Fifth Plan target of 630,000 units was considered ‘reasonably ambitious’.<sup>6</sup>

A large-scale housing programme was only possible if the government prohibited construction in other sectors. Already the government had been obliged to impose a temporary ban on construction permits – first in Tehran and then other cities – from April 1973 through to January 1974 to alleviate a very severe shortage of construction materials. The ban had been lifted not because the shortage had eased but as a result of pressure from builders and property speculators who were being squeezed by the banks.<sup>7</sup> But despite cries from the private sector there was no doubt that government projects came first, especially if military. The Bank Markazi, reviewing the year ending March 1974, reported one month before the Ramsar meeting: ‘The implementation of certain Government construction projects of high priority necessitated the transfer of a greater part of construction activities to the Government sector.’<sup>8</sup> This was a polite way of saying that the private sector had to rely on its wits and the black market. By the end of the Plan total housing starts had reached 124,119 with an average growth over the five years of 10.7 per cent per year.

### *Cement*

The revised Plan blandly stated that ‘annual production of cement mills will increase from 3.6 million tons to about 20 million tons in the final year of the Fifth Plan.’<sup>9</sup> A regular and adequate supply of cement, either locally produced or imported, was essential to the success of Plan targets. Cement production had increased from only 2.2 million tons in 1968/9 to 3.4 million tons in 1973/4; and in the first year of the original Plan production increased a mere 4 per cent although demand was increasing at over 15 per cent.<sup>10</sup>

To fulfil the new production target would have meant increasing production for the remaining four years of the Plan by an annual average of 113 per cent. The Ministry of Industry eventually revised the figure for local production to 9 million tons by 1978: the 20 million ton target would be for the Sixth Plan.<sup>11</sup> In fact cement production in the first two full years’ operation of the revised Plan increased only 25 per cent to 5.1 million tons, while consumption rose to 6.4 million tons. Meanwhile the cement shortage was playing havoc with construction costs and schedules. The government issued permits to contractors which theoretically enabled them to obtain the required quantity of cement at the official price. In practice, these guaranteed

quantities were impossible to obtain except for military projects. As a result the black-market price soared. Against an official price of Rs200 per 50 kilo bag, contractors were paying up to Rs1,000 in 1977.<sup>12</sup>

### *Steel and Oil*

In many other sectors the revised Plan targets were unrealistically high, ignoring completely the experience of the previous few years and making impossible demands upon the nation's physical resources. For instance, the Plan talked of expanding steel production at the Aryamehr steel complex to 1.9 million tons and establishing 'direct reduction steel mills with a capacity of about 10m tons'.<sup>13</sup>

A steel industry was fundamental to industrialisation and Iran was beginning to consume large quantities of steel. However, the steel target, with a production schedule of 15 million tons by 1982/3, ignored the experience of the infant steel industry in Iran. The construction of the Aryamehr complex at Isfahan, the country's first integrated steel works, had started in 1967. Production did not begin until 1973 and production problems were still preventing it from reaching its 600,000 ton capacity until the end of 1976. The direct reduction process was much more technically advanced, and delicate. Besides, it involved not merely the provision of gas but required proper co-ordination of ore supplies since Iran's own resources were inadequate. By mid-1977 it was reckoned that a total of 6.7 million tons could be produced via direct reduction by 1982/3, if all went well. Yet only one direct reduction unit with a 300,000 ton capacity at Ahwaz was ready during the Fifth Plan, and start-up of this was held up by almost six months because the connection of the necessary utilities, including gas, had fallen far behind schedule.<sup>14</sup>

Many of the targets, in retrospect, were more a statement of intent than a realistic objective. This even applied to the crucial oil sector where Iran wanted to expand productive capacity and extend the life of existing oilfields. The Plan talked of raising production capacity by 43 per cent to 7.3 million barrels per day.<sup>15</sup> This centred on developing and improving the Khuzestan fields that account for almost 90 per cent of Iranian production. Since primary recovery in these fields would only be possible for another seven or eight years, it was considered vital to introduce secondary recovery via gas injection.

In the event the Plan took much longer – not surprisingly, as this was the most complex system of secondary recovery ever developed. The main problem was the shortage of skilled manpower. By 1977 NIOC reckoned the project was over two years behind schedule and



it switched to its own schema outside the Plan and allocated \$4.5 billion, roughly 55 per cent of total NIOC investment. Meanwhile it had been tacitly recognised that the production ceiling could not exceed 6.7 million barrels per day and that the Plan target would have depleted reserves and limited the ultimate amount of crude recoverable.<sup>16</sup>

### **Infrastructure and Manpower Shortages**

The authorities also underestimated the time lags inevitable in any major project. A year - sometimes two - could pass between outline agreement, final contract signature and the initiation of work. The construction of the largest petrochemical venture in the Plan, an olefins and aromatics complex at Bandar Shahpur in southern Iran, was held up for two years by discussions about finance and the market. During the delay the cost escalated from \$600 million to \$1.8 billion. Originally due onstream in 1978, work began only in early 1977 and was not scheduled for completion until 1980.<sup>17</sup>

Many targets were also highly unrealistic in terms of the country's infrastructure. The revised Plan document recognised the problems involved. Referring to transport and communications facilities it said much was

below the minimum requirements . . . at present many industrial, agricultural and tourism projects representing heavy investment by both the private and the public sectors are on the verge of completion and commissioning, while the communications facilities required for them to be fully utilised are inadequate.<sup>18</sup>

Roads were too small and poorly maintained; power lines were not ready nor the generating capacity installed; more serious, port capacity was wholly inadequate.

The original Fifth Plan anticipated almost trebling port handling capacity from 3.8 million tons to 9.7 million tons. The revised Fifth Plan trebled capacity again to 29 million tons: nearly ten times the 1973 capacity. The main new port with a 15 million ton capacity was to be built at Bandar Abbas in difficult terrain in southern Iran with only a very limited existing infrastructure. It clearly could not be relied on to be operational in 1978 when work began only in May 1976.<sup>19</sup>

In most projects there were also formidable manpower problems. The original Plan was particularly concerned to reduce unemployment and underemployment and it was feared that the anticipated investment would not create sufficient jobs. Under the revised Plan the situa

tion was completely reversed. Investment was expected to create 2.1 million new jobs with 40 per cent in the industrial and mining sector. The local labour market was only capable of supplying some 1.3 million persons and it was recognised that there would be a shortfall of 721,000, of which almost 80 per cent would be skilled and semi-skilled industrial workers, and skilled construction workers.<sup>20</sup>

Even if this shortfall was to some extent notional it meant that an enormous effort had to be made in vocational training. Imported foreign labour was not desirable even although some 90,000 foreign personnel would be needed, including almost 30,000 already working in the country.<sup>21</sup> The major shortages were therefore in the areas least likely to be filled by a nation still over 60 per cent illiterate. Moreover, due to the construction boom, manpower shortages were already evident in the first year of the Plan. By early 1974 unemployment had dropped to 1.1 per cent of the active population from almost 8 per cent at the beginning of the Plan.<sup>22</sup>

### **Real and Marginal Need**

The problem with establishing priorities in 1973 was that Iran had so much money that it was difficult to choose between the essential and the marginal.

The experience of the hospitals' programme is revealing in this respect. A scheme to build 6,000 hospital beds with international assistance was conceived as the central element in a vastly expanded hospitals programme to create 20,000 extra beds by 1978.<sup>23</sup> In early 1974 three international consortia were selected by the Ministry of Health from some 40 bidders. The consortia appeared to have been chosen deliberately on the basis of nationality -- part of a conscious policy of dividing well defined shares of new contracts among Iran's main trading partners. The consortia were an American group headed by American Medicorp, a British group led by Cementation and a French group headed by Sedim. Each consortium was asked to draw up plans for just over 2,000 beds in five hospitals -- Iran wanted the very best, cost no object.<sup>24</sup>

The companies warned that this brief might lead to cost overruns on the original estimate of Rs3 million (\$44,000) per bed. The Ministry of Health intimated that this did not matter. However, when the proposals were presented, the Ministry was shocked at the three quotations: Cementation offered a bed cost of Rs20.3 million; American Medicorp Rs9.8 million and Sedim Rs8.7 million. The plans were rejected as being too expensive. In the course of just over a year, two further

There were other schemes which died a more welcome death, like the transformation of Tehran into a major world financial centre. At the close of an Irano-British investment conference at Persepolis in November 1973, the then British Trade Minister, Peter Walker, canvassed the idea enthusiastically: 'There is surely no doubt that Tehran could become and will become one of the great financial centres of the world.'<sup>28</sup>

For the next two years this idea was actively promoted by a large group of international banks represented in Iran. The Iranians themselves saw a financial centre as yet another reflection of the country's new international importance but had little idea of what it entailed. The international banking community had precise ideas: a financial centre in Tehran was a polite way of saying that the surplus oil income would be employed by the international banks on the international market with little regard to Iran's own needs for development finance.

The concept was wholly unrealistic. The Iranians believed that a financial centre could be created quickly. Yet none of the necessary structures existed. Iranian banking practice and regulations were already overwhelmed by the expansion of business since 1973. More than half the staff had had under five years' experience in banking.<sup>29</sup> Telecommunications were poor and telex facilities were impossible to obtain quickly. Local banking procedure was so cumbrous that a loan, which took two hours to arrange abroad, needed a minimum of three days in Tehran.

A proper capital market would have required a major overhaul of the communications system, revision of banking practice and regulations, a crash programme of training, and very careful control. The only alternative was to hand the operation over to foreigners, which was unacceptable. In early 1976 the scheme began to be forgotten and by 1977 no mention of it was made at all.<sup>30</sup>

The new financial situation affected not only development projects but also projects in the military sphere, notably the proposed naval base on the Indian Ocean at Chah Bahar. The base was conceived as part of Iran's expanding regional military role and essential for policing the Indian Ocean. Construction required not only a port but a township and air base in one of the least accessible parts of Iran. Nevertheless in November 1975 a contract was drawn up for a British group, Costain, and American company, Brown and Root, to build the base at a total cost of \$2.5 billion. Work was seriously interrupted in January 1976 by the arrest of twelve of the most senior officers in the Navy, including its Commander-in-Chief, Rear Admiral Ramzi

Abbas Ata'i, on charges of corruption.

Ata'i was found guilty of embezzlement; but details of the charges were never released. However, it was known that military investigators had examined the Chah Bahar contracts.<sup>31</sup> This investigation led to a fundamental reappraisal of the project. An expatriate involved at the time commented: 'I think they [the inspectors] received quite a surprise. Chah Bahar was going to be built so lavishly that they had more or less allowed for fountains with golden dolphins.'<sup>32</sup> New plans were duly prepared on a more modest basis. However, the escalation of costs was such that the pared down plan cost virtually the same as the original project. The Navy was still determined to press ahead with the project; but when oil revenues fell back in January 1977 Chah Bahar was shelved, not to be finalised until March 1978. Perhaps this was just as well, since if it had been completed by the original 1980 schedule, there would have been no destroyers to berth, due to delays in learning how to use them. The project is now once again in abeyance.

### Investment Abroad

In pursuit of a grander international stature, the Shah determined on a major programme of foreign investment and assistance in 1974. The surplus income might be a temporary phenomenon but it would allow him to purchase prestige and influence. On this basis \$2.38 billion was disbursed in 1974/5 on foreign loans, grants and investments – more than twice the amount that Iran spent in the first two development plans from 1949 to 1962.<sup>33</sup> Of this sum \$887 million went to the IMF and the World Bank, and \$283 million was handed out in soft loans to developing countries. Meanwhile \$728 million was either loaned to, or placed on deposit in, Britain, Denmark and France, and a further \$136 million went on investments. Having disbursed all this and having accelerated repayment of external debt, there was still an over-all payments surplus in 1974/5 of almost \$5 billion.<sup>34</sup> The authorities perhaps could be forgiven for feeling the surpluses would continue a bit longer (see Table 5).

Yet some of these commitments, so eagerly undertaken, were to prove an embarrassment in less than eighteen months. The case of a \$1.2 billion loan to Britain symbolised this turn-round. The loan was negotiated in July 1974 on the basis of three tranches being paid at market rates to a British local authority over a three-year period. The first \$400 million tranche was paid on time to the National Water Council. However, the second tranche had to be split into two separate payments of \$200 million each by special arrangement in June and September 1976.

This was because Iran could not afford to release so much foreign exchange at one time.

By the time the final tranche was due, Iran did not want to pay. By mutual agreement the British government waived the final tranche, while Iran agreed to use the money to proceed with a number of British arms deals which had been delayed through lack of funds. Both governments felt it too embarrassing to admit to details of the deal.<sup>35</sup> Commitments to place \$1 billion with the Banque de France met similar problems. These were the first major loans by an oil producer to industrialised countries. In retrospect, they would probably have never been conceded if the Shah had foreseen the rapid reduction of surplus income. But in the last resort the motivation for the loans was not economic; they were rather the first attempt to use oil surpluses as an arm of foreign policy, and in this the Shah succeeded, binding Britain and France closer to Iran.

The Shah was lobbied by many top executives of European and American companies who held out the offer of shares, technology and access to markets in return for cash injections. Very few of these offers materialised. For instance, serious discussions were initiated with General Electric to purchase a 25 per cent stake in the company's plastics division - one of the largest plastics producers in America; the rationale being that GE would have a guaranteed long-term supply of feedstock and in return provide the National Iranian Oil Company with an important new outlet. Negotiations broke down on a price for the feedstock and GE wearied of dealing with the Shah, the mercurial Ansari in the Finance Ministry, NIOC and its then affiliate the National Petrochemical Company.<sup>36</sup> Grumman and Union Carbide also had discussions on share participation which never developed, but Iran came close to buying a 13 per cent stake in Pan Am. Iran was to provide a \$245 million ten-year loan in return for 13 per cent of voting stock plus a further \$55 million cash purchase of 55 per cent of the Intercontinental Hotel chain. This was to be a rescue package to ease the company's financial position in early 1975. But the complexity of the airline's debt structure and problems over voting rights finally broke up the deal in July 1975.<sup>37</sup>

Until the Pan Am proposal fell through, foreign investment had been carried out or considered on an *ad hoc* basis with the influence of the Shah's own prejudices clearly visible. The first purchase in September 1974 had been a 25.04 per cent stake in the steel subsidiary of the West German group Krupp - Krupp Huttenwerke. Krupp had been closely associated with Reza Shah, added to which the Shah admired

Madras, India. Another refinery venture in South Korea was initiated in 1976. Iran also sought to buy into BP, finally achieving a small stake when in July 1977 it acquired 700,000 shares, the maximum allotment, when the British government disposed of 17 per cent of its share in BP.<sup>44</sup> Inconclusive discussions were also initiated with the Italian state oil company, ENI, in 1974 on a stake in refining and distribution operations. This foundered because the Iranians felt they were being offered the most unprofitable operations.

It also made more sense to invest in ventures which gave access to much-needed raw materials, like an agreement in April 1975 with India whereby Iran undertook to invest \$630 million in the development of iron-ore mines at Kudremukh which would supply ore to the Iranian steel industry. Other projects like the financing of textiles and cement in Pakistan or fertilisers in Egypt were more marginal but could be justified in terms of foreign policy.

### **Agriculture and the Boom**

In mid-1971 the Iranian government invited a team from the International Labour Office (ILO) in Geneva to organise a comprehensive employment study for Iran. This study was submitted in June 1972. Although overtaken in many respects by the 1973 oil price increases, the study nevertheless offered a set of priorities and objectives which made interesting comparisons with the evolution of the revised Plan.

Summarising its main recommendations, the ILO mission stated:

the development of agriculture, which has and will for a long time continue to have the largest share of the economically active population, has an effect both on the provision of basic food requirements of an increasing population and on anticipated employment levels; more equitable distribution of income is a prerequisite for the expansion of domestic markets on which industrial expansion will largely depend; education and training are the essential means by which the supply of skills is matched by demand.<sup>45</sup>

The report did not seek to talk Iran out of accelerated industrialisation; instead it stressed that without more attention to agriculture and the creation of balanced rural development there would be no base for future industry since rural incomes would not be high enough to buy the goods.

The specific recommendations included the following points:

- (1) the implementation of an urgent family planning programme;
- (2) a major effort to improve and enlarge irrigation, facilitate access to agricultural credit and subsidise agricultural inputs;
- (3) extend rural services to improve living standards and curb the large-scale exodus to the towns;
- (4) create balanced industrial employment that did not tip the scales too much in favour of capital-intensive projects;
- (5) build up industrial estates in small towns;
- (6) avoid using prefabricated techniques and heavy construction equipment except where demonstrably necessary in housing;
- (7) emphasise low-cost housing in the construction programme;
- (8) provide special incentives to attract qualified personnel to small towns and rural areas;
- (9) decentralise as much as possible all decision-making.<sup>46</sup>

The ILO's chief concern was to prevent the urban/rural gap widening and to point out the dangers of industrialisation, even though this was where the new jobs would be created.

Family planning was stressed because of the scarcity of water and the limitations this placed on Iran's long-term ability to feed itself. The population in the early seventies was growing at just under 3 per cent a year and threatened to double within twenty years. The revised Plan paid attention to family planning, aiming at a reduction in the birth rate to 1.5 per cent a year by 1994. In practice family planning assumed a low priority because the authorities believed that industry and the service sector could absorb increased manpower. There was also a widespread belief that surplus oil revenue would provide the necessary funds to purchase foodstuffs abroad and so offset the shortfall in agricultural production. This was evidenced by the resort to government subsidies for imported foodstuffs beginning in 1974.

Subsidies reduced the amount the consumer paid for basic commodities; but the reduced price, coupled with higher incomes, stimulated demand. This put further pressure on domestic agricultural production and imports and helped create a thriving black market. Shortages of essential foodstuffs in the shops were frequent. Increased demand was particularly evident in the consumption of red meat. In 1960 *per capita* consumption of red meat was 28 kilos: by 1975 it had reached 47 kilos per head per year. Demand was increasing at over 12 per cent a year, yet local production was only rising by 9 per cent a year. To prevent growing dependence upon imports, the government started importing large quantities of high-quality livestock from the US and Europe by

air freight for breeding purposes (making it among the costliest livestock in the world). These foreign breeds were on the whole unsuited to the Iranian climate and required much higher amounts of animal feed - and of better quality - than local strains. So not only was the government paying dearly to obtain more locally produced red meat, it was paying twice by subsidising the produce to the consumer. Only in late 1976 was this policy slowed down.<sup>47</sup>

The subsidies also masked the inefficiency of local agriculture. The government in the case of a staple commodity like wheat was importing at twice the local cost and then selling at subsidised prices. Instead of supporting the foreign farmer, it would perhaps have been more beneficial to re-examine local farm gate prices and subsidies. Equally, subsidies concealed the wastage in local production: up to \$2 billion worth of agricultural production was being lost each year through poor cropping, bad warehousing and inadequate distribution. The Ministry of Agriculture itself estimated that 30 per cent of tomato production and 20 per cent of meat produced was lost in the unco-ordinated chain between supplier and the shop. Meanwhile the farmer was getting as little as 5.5 per cent of the shop price for most products.<sup>48</sup> The government had stimulated consumption without any proper structural reform of agricultural production.

Reform was attempted in the 'agribusiness' ventures first promoted in early 1969. By encouraging foreign investors with attractive local financial assistance, it was hoped the latest technology could be applied to large-scale farming. The experiment was tried in south-west Khuzestan where large tracts of flattish uncultivated land could be irrigated with water from the Dez Dam. Khuzestan was to be the bread-basket of Iran. Four joint ventures were formed with prestigious foreign partners who had the type of experience necessary for the climate - cotton-growing in Ethiopia and Californian agriculture (whose climate was considered similar).<sup>49</sup> By early 1976 three of the four projects had piled up losses of over \$5 million; and the Agricultural Development Bank had been obliged to take over the management of three of them, injecting emergency funds into two which were technically bankrupt. Meanwhile only 13 per cent of the land allocated had been brought under cultivation (8,200 hectares out of 60,800).

These ventures lacked proper preparation. Crop choice and crop forecasts were based upon inadequate research: large-scale cotton-growing proved disastrous; while only by accident was it discovered that winter crops like sugar-beet and wheat were the most suitable to the high soil temperatures. The farming units were too large; and no



one anticipated the scale of development costs (land-levelling, roads, housing, etc.) which were borne by the companies, not the government or local authorities.

These problems combined with other factors. The vital water from the Dez Dam irrigation scheme was not available in the quantities required. At the end of 1975 only 18,000 hectares were under irrigation, the schedule was for four times this amount. Workers with any mechanical skill quit because wages in the nearby industrial centre of Ahwaz were twice as high. The essential pool of cheap labour dried up. To prepare the land for the large-scale farms 6,530 families had been moved into 13 centres. This had been done in a clumsy way, and many were reluctant to work for others on land which they historically regarded as theirs – especially as most of the work was casual. To cap it all, costs rose by 300 per cent over five years while farm gate prices went up only 50 per cent. In agricultural terms the venture was not a complete failure. In five years up to the end of 1975 wheat yields per hectare rose from 2.2 tons to 4 tons and sugar-beet from 42 tons to 50 tons. But it was a financial and organisational disaster. It left no real model to take forward into the sixth Plan.<sup>50</sup>

The ILO's emphasis on irrigation was reinforced by the experience of Khuzestan and it was allotted an important place in the revised Plan. However, this clashed with the need for more electricity. Hydro-electricity was responsible for almost 18 per cent of power supplies. In the competing demands of water for power generation and water for irrigation in low rainfall years (which was the case in 1976 and 1977) power generation took precedence.

Again extension of rural services was considered an important element of the new Plan's emphasis on social policies. At first the credits were available but the manpower and the materials proved difficult to mobilise for feeder roads, extension of electricity transmission lines, etc. In the competition for scarce skilled manpower, and subsequently scarce materials, the rural areas lost out. In 1976 when budgetary expenditure began to be scrutinised, rural improvements were the easiest to prune.

Meanwhile the difference in urban and rural wage levels increased. Over-all *per capita* income had doubled in three years to \$1,600 by March 1976.<sup>51</sup> This had created the illusion that income was being distributed. Rural incomes did rise, true; but only through government spending and not through any clearly defined structural change that would ensure the closing of the urban/rural gap. The rural exodus continued at the rate of 250,000 a year.<sup>52</sup>

### **Capital-Intense Solutions**

In the industrial field the ILO feared that over-emphasis on capital-intensive industry would ruin long-term employment prospects.<sup>53</sup> What happened was rather different. With access to new capital, industry opted for capital-intensive solutions attracted by the benefits of high technology in production. In theory the move was logical: better and more efficient equipment would produce a more cost-effective operation. But this was measured against the norms of a Western industrialised country.

In the Iranian context this solution had unforeseen repercussions. The over-all demand for industrial labour was lower than anticipated, yet the need for certain types of skilled and semi-skilled workers, like machine-operators and good managers, increased. Country-wide, capital-intensive solutions had been adopted and a key sector like oil competed with construction for skilled labour. Yet if traditional construction techniques had been maintained there would have been little need for skilled labour. The shortage of skilled labour the difficulty of finding it and retaining it became the single most important element in delaying projects.

Opting for capital-intensive solutions inevitably raised the technology and foreign assistance content. This was willingly accepted by the authorities because it was felt Iranian workers would learn through experience. By and large the presence of foreign assistance discouraged a responsibility to learn; and employers realising that foreign workers performed better often on lower pay were reluctant to train Iranian replacements.

Afghans, Indians and Pakistanis were used as the main semi-skilled imported labour. Indians, Pakistanis, Philipinos and South Koreans the main skilled technicians and in the higher-technology fields Europeans and Americans. By March 1977 some 60,000 foreigners possessed work permits.<sup>54</sup> In addition, some 10,000 or more workers were thought to be in Iran without work permits. If all the vacancies were to be filled, the proportion of foreigners in Iran would easily have doubled. At the outset the authorities preferred to let jobs go vacant than allow too high a number of foreigners. As a guideline, the Ministry of Labour in 1975 considered that no more than 10 per cent of the labour shortfall should be made up by foreigners.<sup>55</sup> One of the areas where priority was given to foreign replacement was in the health field, where a target of 20,000 imported doctors was set. (The shortage of medical and paramedical staff was so acute, for instance, that the laboratory of Abadan's

largest hospital was forced to close down in February 1976.<sup>56)</sup>

Throughout industry, machinery and costly imported technology were often inefficiently employed. This was not entirely surprising. Industry had to make formidable readjustments in a very short space of time and from a narrow base of experience.

During the years when labour was abundant, financial assistance by the Government and the development banks had placed plentiful resources at the disposal of industrialists, and many of them were making high profits under the protection provided by the Government. Some did not learn to economise in the use of labour, materials and equipment, and the need for careful management of these factors did not seem urgent. Therefore many industrial units had become accustomed to waste of capital, raw materials and surplus labour.<sup>57</sup>

Against this background, industrialists had to cope in quick succession with sudden increases in the cost of imported goods and raw materials, labour shortages, spiralling wage costs, exorbitant land prices, clogged ports, price controls and, finally, serious shortages in power supplies.

The result was extremely uneven performance. Despite domestic demand, it was the rare factory that was able to operate at capacity. A government study in early 1977 found that capacity utilisation was 61 per cent in textiles, 96 per cent in cement, 46 per cent in brick-making, 69 per cent in the automotive industry (51 per cent in the car industry) and 32 per cent in tractors.<sup>58</sup> Quite frequently this was due to factors beyond the control of the individual factory. Arak Machine Tools – the main heavy engineering plant in the country – produced 13,751 tons of goods in 1976/7 against a capacity of 23,000 tons. The low production was attributed to power failures that damaged installations and took a long time to repair. They also suffered from very poor after-sales service on five important boilers and very high absenteeism among the workers. Yet the company was singled out in the revised Plan to have its production raised from 30,000 tons to 75,000 tons a year!<sup>59</sup>

One arm of the government undermined the efforts of another. For instance, a company was formed to manufacture road-mending equipment, Hepco. The government had given this company financial support through IDRO (Industrial Development and Renovation Organisation). However, no effort was made to prevent contractors importing foreign equipment. By March 1977 the company was producing at 25 per cent of its capacity, and had accumulated unsold equipment equivalent to 20 times its capital. Or again the country's sole aluminium factory was

operating at 43 per cent of capacity largely due to power cuts. In the 12 months to March 1977 it had had its power cut 760 times and in two years had lost \$12 million from power shortages.<sup>60</sup>

Some factories suffered seriously from the steep increase in costs after 1973. The Shahriar Industrial Group's steel billet plant at Ahwaz started operations in 1972 using scrap iron as raw material. After three years' satisfactory operation the increasing problems of finding adequate scrap supplies, heavy rises in transportation costs, port congestion and labour shortages forced the plant to close down. The company decided it was more profitable to buy billets abroad and tried to sell its 200,000 ton capacity plant to the government.<sup>61</sup>

Within three years Iran had become an exceptionally high-cost country without the benefits of skilled or efficient labour. General Motors calculated in late 1975 that it took 45 man-hours to assemble their Chevrolet Iran in Tehran against 25 man-hours in West Germany for the same car, the Opel Commodore. GM Iran had managed to reach 45 hours in just over 12 months, having scaled down from 80 hours at the outset of production. The comparative difference of labour costs was 5.2.<sup>62</sup> GM Iran lost \$4.2 million in the first two years of operations. In fact the automotive industry's survival depended on high protective barriers (taxes of between 200 and 500 per cent) and a generous pricing policy because so many of the components were imported. (The Chevrolet Iran sold for \$8,500 against \$4,500 for the Opel Commodore in West Germany.) When price controls were introduced in July 1975, the motor industry was among the first to protest, and indeed was one of the few privileged sectors to have the controls rescinded in early 1976.

The problems of Iranian management centred around the introduction of technology in a country with no tradition of modern technology. For instance, an expensive German press was introduced into an automotive factory with a special device that automatically shut off the machine if the worker came too close. This enabled freer operation of the press by one instead of two people and guaranteed against industrial accidents. An older and cheaper design used a metal guard but needed two operatives. In the Iranian factory the older design was more efficient, since a poorly trained operator found it hard to come to terms with the unseen electronic beam that stopped the machine once he moved beyond a certain point.<sup>63</sup>

A more fundamental criticism of government policy towards industry is that in the three years following the 1973 oil price rises, wage increases were not infrequently three times the annual increase in productivity.<sup>64</sup> Production costs had risen so quickly that Iran's hopes

of creating export-orientated industries like automobiles and domestic appliances suffered serious and perhaps irreparable damage.

Another important consequence of the switch to high technology was to suck industry into the urban areas which attracted skilled manpower. Business that ventured into rural areas discovered that the benefits of cheaper land, government grants and cheaper labour were quickly eroded for lack of skilled labour. It was very hard to retain skilled workers once they had been trained. Second, local authorities frequently failed to provide, when required, essential facilities such as telephones, electricity supplies, water or access roads, to say nothing of housing for the work-force. For instance, poultry farms tended to concentrate round Tehran and Qazvin because water supplies were easier to obtain – and in Tehran water connection could take from four to eight months!<sup>65</sup>

There was in fact very little real incentive to establish an industry in a rural area or indeed beyond the confines of any large town. With distribution, decisions and communications centralised in Tehran no one really wanted to be located outside the Tehran area: a further factor widening the urban/rural gap and increasing the rural exodus.

In the rural areas traditional industries like carpet-weaving, which employed some 300,000 people, suffered.<sup>66</sup> Labour costs rose sharply and in the Kerman region – one of the principal weaving areas – the expanded mining industry competed for labour. Carpet production declined, producing lower exports in an industry which provided 17 per cent of Iran's non-oil exports.<sup>67</sup>

Finally, the high wages and salaries for qualified personnel in large towns, especially Tehran, made it extremely difficult to attract good people to rural areas. Frequently these were the posts which only foreigners would fill, or disgruntled bureaucrats banished for some form of disobedience. The turnover of personnel was rapid, making continuity of programmes doubly difficult. This was not a problem exclusive to Iran, but shared by all developing countries where the capital and large towns represent the modern world. However, in a large country like Iran, the development of which required a strong element of decentralisation, it was a serious handicap.

### **The Rate of Growth**

The revised Plan had projected Gross National Income to increase at an annual average of 25.9 per cent. In the event the growth rate was substantially slower, though still high, at 17.9 per cent.<sup>68</sup> The principal break on achieving higher growth was the levelling off of oil income,

Table 7: Gross National Income and Product during the Plan (constant 1974/5 prices)

|   | Value-added (Rs bn ) |        |        |        |        | Annual Plan<br>increase %<br>1973-8 |
|---|----------------------|--------|--------|--------|--------|-------------------------------------|
|   | 1973/4               | 1974/5 | 1975/6 | 1976/7 | 1977/8 |                                     |
| Agriculture                                     | 286                  | 303    | 324    | 341    | 339    | 4.6                                 |
| Oil/gas   | 1,450                | 1,441  | 1,264  | 1,384  | 1,284  | -0.7                                |
| Industry  | 387                  | 436    | 532    | 630    | 684    | 15.5                                |
| manufacturing/mining                            | (264)                | (312)  | (360)  | (423)  | (468)  | 15.8                                |
| construction                                    | (101)                | (98)   | (141)  | (174)  | (179)  | 14.4                                |
| water/power                                     | (21)                 | (25)   | (33)   | (33)   | (36)   | 16.3                                |
| Services  | 749                  | 889    | 1,029  | 1,173  | 1,281  | 15.3                                |
| Gross Domestic Product                          | 2,874                | 3,071  | 3,150  | 3,529  | 3,589  | 6.9                                 |
| Non-oil GDP                                     | 1,423                | 1,630  | 1,885  | 2,145  | 2,304  | 13.3                                |
| Net factor income<br>from abroad                | 35                   | 13     | - 38   | --24   | -7     | -27.5                               |
| Net indirect taxes                              | 101                  | 65     | 73     | 96     | 120    | 2.6                                 |
| Gross National Product<br>(market prices)       | 2,940                | 3,124  | 3,185  | 3,602  | 3,702  | 7.0                                 |
| Compensation for valuation<br>of terms of trade | -586                 | 0      | - 39   | 97     | 137    | 0                                   |
| Gross National Income                           | 2,353                | 3,124  | 3,145  | 3,699  | 3,839  | 17.0                                |

Source: Bank Markazi annual report, 1977/8, pp 94-5

All figures have been rounded.

coupled with a much greater rate of inflation than originally anticipated. During the Plan the year of slowest growth was the final year. Real growth in 1977/8 was only 2.8 per cent and this modest growth was achieved with some dextrous juggling of the previous year's figures which were revised downwards.<sup>69</sup> In 1977/8 there was a 7 per cent decline in value-added in the oil sector; and this was compounded by a bad agricultural year and a fall off in industrial activity, largely as a result of the inadequate supply of energy which forced many industrial establishments to carry out numerous temporary closures. In the agricultural sector staple crops like wheat, barley and rice all registered net declines, and overall added value fell 0.8 per cent.<sup>70</sup> The Amouzegar Government had, from the moment it took office in August 1977, begun to apply the breaks and there was much less pressure on government disbursements even though fixed capital spending of the public sector was well below the Plan target. One of the main areas in which the Amouzegar Government sought to act was construction. Throughout the Plan this had been the sector subject to the greatest inflationary pressures and in mid-1977 they had reached a peak. The Government instituted measures to give an official price tag to land values, penalising proprietors who sold above it. Legislation was introduced to sanction owners of empty houses and apartment blocks. Finally, the interest rate on construction loans was raised 3 per cent and restrictions were placed on upper-income housing permits. The net effect was to ease the black market pressures on cement and steel and reduce the price of land. More importantly private sector investment in construction increased only 7 per cent against 32 per cent in the previous year, starting a mini-recession.<sup>71</sup>

In the final year of the Plan the authorities also initiated a tighter monetary policy. The growth in money supply was cut from 37 per cent to 29.3 per cent. This decrease gives little real idea of the deceleration in the economy. The bulk of the increase in money supply, 62 per cent, occurred during February and March 1978 when the Imperial Commission decided to stimulate end-of-year spending on priority projects, afraid that the showdown might produce stagnation.<sup>72</sup>

Thus from start to finish there was an uneven pattern of Government spending and interventionism, which was reflected in growth. The Amouzegar policies were undoubtedly more realistic, in tune with the country's resources. In retrospect the Government should have instituted the tight controls on land speculation and stiffer rates for construction loans in 1975 at the time of the anti-profiteering campaign. Many of the economic problems and, just as important, the social problems, can

be traced back to the uncontrolled construction boom of 1973-6. Moreover by making construction and property such lucrative ventures, an unnecessary amount of resources – financial, materials and labour – were diverted in this direction. So when the controls began to bite in late 1977/early 1978, private capital took fright and did not want to invest elsewhere. The downturn in construction and in overall industrial activity coincided with a bad harvest which tended to drive more unemployed into the cities at a time when unemployment was beginning to be noticeable there.

At another level this greater realism by the Amouzegar Government meant that the Plan had been ditched, as too had the promised Sixth Plan. Due to be foreshadowed in the autumn of 1977 it never saw the light of day. Even before the appearance of the Khomeini revolution, the authorities had adopted an *ad hoc* policy to economic planning. The long-term priorities had become submerged in changing political circumstance and the annual budget was the sole guideline for economic planning.

## Notes

1. *Kayhan International*, 25 October 1976.
2. Plan and Budget Organisation, *Iran's Fifth Development Plan 1973-78*, revised version, May 1975, p. 397.
3. Based on information supplied to the author by PBO officials and Minister of Finance Hushang Ansari.
4. PBO, *Fifth Plan*, p. 46.
5. *Ibid.*, pp. 390-400. The private sector was to build 550,000 urban and 200,000 rural units.
6. International Labour Office, *Employment and Incomes Policies for Iran* (Geneva, International Labour Office, 1973), p. 62.
7. Construction permits dropped 44 per cent in Tehran and large cities in 1973/4. See Bank Markazi annual report, 1973/4, p. 93.
8. *Ibid.*, p. 91. Housing starts increased from 71,606 in 1973/4 to 124,119 in 1977/8.
9. PBO, *Fifth Plan*, p. 246.
10. Bank Markazi annual report, 1974/5, p. 181.
11. *Iran Almanac. Echo of Iran, Tehran*, 1977, p. 316.
12. *Ibid.*, p. 249.
13. PBO, *Fifth Plan*, p. 246.
14. Information supplied to the author by Dr Reza Amin, Chairman of National Iranian Steel Industries Corporation, July 1977, and by executives of foreign steel companies in Iran.
15. PBO, *Fifth Plan*, p. 266.
16. Based on information supplied to the author by NIOC officials, July 1977. See also *Middle East Economic Survey*, 25 October 1976.
17. Information supplied to the author by an executive of Iran Japan Petrochemical Company, July 1977.



18. PBO, *Fifth Plan*, p. 297.
19. *Financial Times*, 28 July 1975.
20. PBO, *Fifth Plan*, pp. 71-3.
21. *Financial Times*, 28 July 1975.
22. Bank Markazi annual report, 1973/4, p. 20.
23. PBO, *Fifth Plan*, p. 459.
24. Based upon information supplied to the author by Cementation.
25. *Kayhan International*, 19 February 1976. These allegations were denied by the companies concerned. Cementation insisted there was no fixed agreement on costs per bed. The British group's three consecutive bids were: £355 million; £210 million; £178 million. The original bid was based upon 2,497 beds.
26. *Kayhan International*, 27 November 1975. That year car production at Irannational was 55,000 units.
27. *Financial Times*, 14 March 1975.
28. *Iran-United Kingdom Investment Conference 1973, summary of proceedings* (London, Times Newspapers, September 1974), p. 4.
29. *Kayhan International*, 12 December 1975.
30. *Financial Times*, 29 October 1975.
31. *Financial Times*, 12 January 1976 and 22 January 1976. Also *Kayhan International*, 23 February 1976.
32. Comment to the author by a member of one of the contracting companies involved at Chah Bahar.
33. Bank Markazi annual report, 1974/5, p. 58.
34. In 1974/5 Iran accelerated repayment of foreign debt, mainly short-term, from \$541 million to \$1.3 billion.
35. Based on information supplied to the author by Bank Markazi and British officials.
36. Based on information supplied to the author by a GE executive. This project was never publicised.
37. *Financial Times*, 2 July 1975 and 20 July 1975.
38. Based on information supplied to the author by Fried Krupp.
39. The Brazilian subsidiaries were Krupp Metalúrgica, Campo Limpo (forgings and castings for the automotive industry) and Krupp Industrias Mecânicas at Minas Gerais (a heavy-machinery plant). Iran bought a 40 per cent direct stake, and in addition 5 per cent of Industrias Mecânicas shares went to a joint Krupp-Iranian investment company set up in Zürich in 1974. See *Financial Times*, 20 October 1976 and 22 November 1976.
40. The price paid was DM178 million.
41. *Business Week*, 13 September 1976. An intriguing aspect of the talks with Occidental is that they also concerned partnership to explore for oil in northern Iran and offshore in the Caspian. This had always been a highly sensitive issue with the Soviet Union; but given Hammer's links with the Soviet leadership this could have been a compromise.
42. Fiat's President, Giovanni Agnelli, is understood to have felt that any equity stake held by Iran would become the focus of industrial action and left-wing agitation. Fiat was one of the few multinationals to avoid Iran during the boom, having sold out its automobile interests in 1971.
43. Cyrus Ansari became the Iranian representative on Krupp.
44. Based on information supplied to the author by Dr Parviz Mina, director of International Relations, NIOC, July 1977.
45. ILO, *Employment and Incomes Policies*, p. 9.
46. *Ibid.*, pp. 13-19.
47. Between 1974 and 1976 European cattle prices rose sharply, making the scheme less attractive. Originally the government undertook to pay for the air

freight costs but alienated the companies involved by disputing this commitment.

48. The Iran *Economic Survey*, No. 138, 28 June 1977. The wholesaler (middle man) was getting 44 per cent of the final price; the retailer (shopkeeper) 39 per cent; the transporter 11.5 per cent and the producer 5.5 per cent.

49. The four companies were: Shellcott (foreign partners Shell and Mitchell Cotts); Iran California (foreign partners John Deere, Bank America, Transworld America); Iran America (foreign partners Citicorp International); Iran International (foreign partners Mitsui, Diamond A Cattle Ranch, Chase Investment Company and Hawaiian Agronomics).

50. Based on information supplied to the author by the Agricultural Development Bank and foreign consultants familiar with Iran's agribusiness. Shellcott by mid-1976 had accumulated losses of Rs403 million; Iran California had accumulated losses in 1975 of over Rs100 million, and Iran America was wound up in 1975 and restructured with a Rs460 million cash injection from the ADB.

51. Bank Markazi annual report, 1975/6, p. 2.

52. *Financial Times*, 25 July 1977.

53. ILO, *Employment and Incomes Policies*, p. 59.

54. *Iran Almanac*, 1977, p. 379.

55. *Tehran Journal*, 11 August 1975.

56. *Kayhan International*, 25 February 1976.

57. Industrial and Mining Development Bank of Iran (IMDBI) annual report, 1976/7, p. 12.

58. US Embassy, *Semi-Annual Economic Trends Report*, Tehran, May 1977.

59. *Kayhan International*, 13 July 1977; see also PBO, *Fifth Plan*, p. 248.

Workers at Arak Machine Tools had taken 20,000 hours' sick leave in one year.

60. *Ibid.*

61. IMDBI, annual report, 1976/7, p. 61.

62. Based on information supplied to the author by GM.

63. Based on comments by an executive in Irannational.

64. IMDBI, annual report, 1976/7, p. 112.

65. *Iran Almanac*, 1977, p. 217.

66. ILO, *Employment and Incomes Policies*, p. 47.

67. Bank Markazi annual report, 1975/6, p. 56. It has also been suggested that the value of carpet exports declined following the lifting of foreign exchange controls in late 1974. Previously carpets were the principal means of acquiring foreign exchange for the private sector and carpet sales were used as a means of evading exchange controls. The carpet-dealers and money-changers were closely interlinked.

68. Bank Markazi annual report, 1977/8, p. 15.

69. *Ibid.* See also *Financial Times*, 12 September 1978.

70. Bank Markazi annual report, 1977/8, pp. 21-4. 'The existence of such problems as shortage of electricity, the sharp rise in wages and other bottlenecks in providing raw materials and intermediate inputs to the industries, reduced the private sector's activity in this field.' Industrial production rose 10.3 per cent against 17.3 per cent in 1976/7.

71. *Ibid.*, p. 21.

72. *Financial Times*, 12 September 1978. See also Bank Markazi annual report 1977/8, p. 36.

## PART III

### THE SYSTEM OF POWER

One can imagine a good man killing himself in the effort to reform the Government of Persia. But success would seem impossible and endurance must lead to compromise with evil and corruption of every sort. A violent death would be the likely end of a good man in such a position, and wealth that of one who would accept the place and swim in the stream of corruption.<sup>1</sup>

Having survived two direct attempts on his life, witnessed the assassination of two Prime Ministers and having experienced a brief but humiliating flight from his country, Mohammed Reza Shah could scarcely pretend that his rise to absolute power was effortless or his retention of power without challenge. But since the crushing of parliamentary opposition in 1963 he built up, through the use of force and favours, a position that seemed progressively harder to challenge.

Government was fashioned round the principle of sustaining the ruler's power, the hallmark of all authoritarian régimes.

In theory the Shah observed the 1906 Constitution, which envisaged a constitutional monarchy with an independent legislature – in the form of the Majles (Parliament) – and an independent judiciary. In practice the Constitution only served as a point of reference when convenient. The distinction between the executive authority of the Shah and the independence of the legislature and the judiciary was blurred and all were merely part of the monarch's executive arm. All important decisions were by decree, imperial firman. The monarchy was the country's only institution, around which all power revolved without any formal checks and balances. Nevertheless unconventional checks and balances existed: namely the self-interest of the Shah in staying on the throne and the self-interest of those who depended upon the Shah as the fountain of all favour. In general the system has encouraged the abuse of power. As Marvin Zonis points out: 'the Government of Iran historically has been and continues to be "of, by and for the elite"'.<sup>2</sup>

The Shah observed the traditional and fundamental principle of divide and rule. Power was distributed to a series of individuals or agencies with overlapping functions which were kept fragmented and weak. Loyalty was at a premium in a handful of trusted positions but generally the system was founded on mistrust and mutual antagonism—

The centres of this fragmented power were as deceptive as a Chinese box because the system has two faces – the public or constitutional side, and the covert or unconstitutional side. The former consisted of what would seem in a Western society the institutions of democracy: the Prime Minister's office and the Cabinet; the Majles; the single political party, Rastakhiz; the provincial governors and the press. However, the functions of these were either controlled, monitored or duplicated by the covert side which consisted of the Imperial Inspectorate, SAVAK, the armed forces, military tribunals, powerful individuals without fixed positions and the economic power of the Royal Family. In some instances these two worlds converged in the Royal Court and the Shah's Special Bureau, which acted as a funnel for communication with the Shah. In other instances personalities had connections with both 'worlds'. Yet the one constant factor was the Shah's own direct relationship with all these bodies or individuals. Thus the exercise of power came to depend exclusively upon the Shah's relationships with a series of individuals either in their function as heads of agencies and Ministries or as individuals.

The Shah had this to say about his own system:

I am a great believer in a plurality of administrative channels and in having alternative channels always available. If through ignorance, laziness or self-interest one official refuses to bestir himself to vigorous action, then I turn to somebody else . . . I do not employ advisors in the usual sense of the term. To do this is, I think, dangerous for any head of state. One of the few mistakes my father made was to rely upon a narrowing circle of advisors. Fearing Reza Shah, they flattered him rather than telling him the truth; and I am sorry to say that they were by no means incorruptible. My system is entirely different. I know that advisors, no matter how technically competent they may be, sometimes make the national interest subservient to their own. Furthermore they are prone to funnel all information through themselves and to seal off independent intelligence channels. So in lieu of advisors I obtain information from many quarters and then try to strike a balance sincerely and solely in the light of the public interest.<sup>3</sup>

This was written in 1961 and since then the emphasis on alternative channels increased considerably.

## **The Grand Vizier**

Since the experience of Mossadegh, the Shah turned the Prime Minister into the chief public administrator with rare opportunity to initiate policy of any significance. The last person to try was Dr Ali Amini – and his example stands as a warning to all those who might overstep themselves. He was eased out of office in 1962 (see Chapter 4).

The post came to resemble more and more that of the old Grand Vizier. The Prime Minister carried out, and occasionally interpreted, the Shah's orders. Amir Abbas Hoveida epitomised the Grand Vizier role. He held the post from 1965 to August 1977, the longest uninterrupted tenure since the promulgation of the Constitution. His principal asset was his acceptance of this subservient role, an astute interpretation of what the Shah wanted and a canny feel for the political mood of the country. He was also a solid reassuring figure – pipe-smoking, the quirk of a fresh orchid in his buttonhole – who managed to soften the austere public image of the monarchy. Hoveida seemed to positively enjoy travelling around the country telling the nation the Shah's policies. Yet despite this loyal service, he was shunted aside when the Shah needed a scapegoat.

Hoveida was cast aside because the Shah needed a change of style, a more liberal image, in response to demands from the intelligentsia and the bourgeoisie for greater liberalisation after President Carter's election to office. He was also made the scapegoat for the accumulated failures of the revised Plan, like the power shortages that occurred throughout the spring and summer of 1977. Hoveida was a prime example of the disposability of Ministers and Cabinets who were there in the last resort to protect the royal personage from direct criticism. His ignominious arrest in November 1978 confirmed this. Hoveida merely carried out orders.

Superficially it seemed that someone in Hoveida's position had the means to build a power base. In one sense he could and did. As Prime Minister he had an important area of patronage in influencing appointments to key positions as Ministers, senior civil servants, ambassadors or newspaper editors (he was careful to cultivate the latter). In 1976 the Prime Minister's Office had almost \$140 million, available mostly for running expenses and attendant patronage.<sup>4</sup>

Latterly he acquired influence over the choice of Ministers. A foreign diplomat recalled watching a film after dinner with Hoveida. At the end of the film, the lights went on to reveal a room full of men. Hoveida, seeing his guest's perplexity, calmly said: 'I've just reshuffled my Cabinet.'<sup>5</sup> Hoveida also acquired influence through Iran Novin, one of

the two 'loyal' political parties until the creation of Rastakhiz. Indeed it was suggested that the creation of the Rastakhiz single party system in March 1975 was intended to curb his power. Hoveida had just been elected party Secretary of Iran Novin at a rousing rally in Tehran; the first time that one man had been Premier and party Secretary in more than a decade. However the party influence remained when he was co-opted into being temporary Secretary-General of Rastakhiz. He was so jealous of his authority that he effectively prevented Finance Minister Hushang Ansari and Interior Minister Jamshid Amouzegar from playing their roles as leaders of the party's two 'wings' – supposedly two ideological groupings for fostering debate within the party. In fact even after Amouzegar was elected Secretary-General in October 1976, Hoveida still sought to obstruct him and control the party.

The Prime Minister's main task within the Cabinet was to orchestrate a result that had been agreed in advance. The Cabinet took no important decisions. These were reached in advance by the Shah in private audience either with the Prime Minister or with individual Ministers or heads of agencies. At best the Cabinet acted as a forum for working out the application of a decision. Hoveida tended to dominate all discussion. One Minister recalled the unedifying experience of his first Cabinet meeting with Hoveida:

At my first Cabinet meeting I was very nervous; but then I almost laughed when I saw how frivolous the whole thing was. No one talked very much. They [the Ministers] just sat there signing documents or listening to Hoveida. I remember one day a Minister got up and asked something like 'Why do we bother to come here if no one discusses anything?' This created little reaction and changed nothing.<sup>6</sup>

The weakness of the Prime Minister, and the Cabinet, stemmed from the Shah's control over their appointment and dismissal. Although the Constitution would have it otherwise, Parliament had no say in appointments. The Prime Minister and the rest of the Cabinet had no institutional protection for their positions or recourse to popular opinion except in the most indirect way: the dismissal of a certain Minister might reflect unfavourably on the Shah's ability to govern. Damage to the Shah's credibility was the sole effective check on his power of hire and fire.

Individual Ministers developed their own area of influence; however, it was always strictly circumscribed. Even more than the Prime Minister,

Ministers were a disposable commodity: scapegoats for any unpopular policy of the Shah. Initiative was discouraged and the delegation of authority inhibited. Ultimately it became unavoidable that the men chosen, and willing to serve, as Ministers had to emasculate themselves if they wished to survive in their posts.

Ministers tended to use influence defensively, to protect their own position from the rivalries of other Ministers or heads of government agencies. This created considerable antagonism between Ministers, often deliberately fostered by the Shah. An important by-product of this antagonism was that Ministers continually sought to ensure their Ministries were seen in a favourable light by the Shah. Facts and figures were distorted to protect individual positions in every Ministry because Ministers had no means of self-protection outside the Shah's favour.

The Shah, knowing full well that facts were withheld or doctored, countered by reinforcing his parallel government, which duplicated with little efficiency the institution it was monitoring. In 1975 the Shah created an Energy Ministry to be responsible for Iranian energy policy. However, this Ministry had no control over the management or policy of the National Iranian Oil Company which produced, marketed and refined Iranian oil and which also coordinated the development of gas through its former subsidiary, the National Iranian Gas Company. The Ministry of Energy equally had no control over the Atomic Energy Authority, whose expenditure had become the largest single item in the energy budget. The decisions on the purchase of nuclear power stations were made by the Shah in co-ordination with the Atomic Energy Authority. Both NIOC and the Atomic Energy Authority reported direct to the Shah, never to the Cabinet. NIOC is not consulted on oil price policy. This was decided by the Shah in conjunction with another Minister – for several years until his appointment as Prime Minister in August 1977, it was Jamshid Amouzegar, Minister of the Interior. Thus the Ministry theoretically responsible for energy matters had its empire broken up into separate parts which could only be co-ordinated through the Shah. Even in such a vital area, the Shah still felt obliged to adopt an inefficient, but protective system in terms of his own power.

In many developing countries the one Ministry that provides a separate power base is Defence. In Iran, the Ministry of War (Iran is one of the few countries not at war to call a Ministry by this name) had been kept in the hands of the military since defence is considered to be outside the sphere of civilian Ministers. Defence policy and foreign affairs were exclusive spheres for the Shah. On paper the Ministry of the Interior was powerful since it controlled both the police and the



70,000 strong paramilitary gendarmerie equipped with light weapons and using its own communications systems.<sup>7</sup> However, these two bodies had limited investigatory powers and on key issues they reported not to their Minister but direct to the Shah. The same applied to provincial governors who were nominally under the Ministry of Interior but since they were appointed personally by the Shah they reported direct to him on important matters.

### **The Rastakhiz Party**

The creation of the Rastakhiz Party finally dismissed the masquerade of a Western-style political system in Iran. At the time the Shah declared: 'Every Iranian who has clarified his position, that is who believes in the Constitution, the Monarchy and the Sixth Bahman Revolution [the White Revolution of 1962] must definitely join this political organisation.'<sup>8</sup> From now on there would be one political party grouping all loyal Iranians.

Yet if he was disillusioned with Western democratic structures in Iran, the Shah was nevertheless anxious to generate a sense of participation in the modernisation of the country. The party was intended to be an important element in his system of government; the link between the Shah and the nation, cementing the mystical union. In practice the party proved, as all single-party systems under an authoritarian régime, to be just another extension of the executive.

The party was used in three main ways – to channel and depoliticise public debate, as a parallel watchdog organization of the administration and as a sort of popular police force. It was used to police the anti-profiteering and prices campaign in the summer of 1975. Youths were recruited in the name of the party to check out shop prices and where necessary were used to break up supermarkets that overcharged. This was later admitted to be a mistaken policy.<sup>9</sup> In the name of the party, groups of 'loyal' students and workers were used to pack rallies staged to counter religious or political gatherings from 1977 onwards. In the provinces people used the party as a kind of ginger group to activate otherwise lethargic local administrations. But equally the party served as another source of information for the Shah reporting on rural affairs.

The party's principal function was to channel public debate in Parliament.

There is no majority as such and the wings [of the Party] are not in the status of majority or minority. For this reason the Budget Bill for the year 1976/77 was approved unanimously. Those who took

part in the debate had not registered to speak in the debate as 'against' it and in their speeches therefore they just made a certain statement. For the first time, the list of speakers had not been drawn into two sections – 'for' and 'against'.<sup>10</sup>

The party's real power was negligible, not least because the Shah sought to prevent it being used as a potential threat to his own authority. Although Hoveida was put in overall charge, the party was split into two 'wings', in theory to orchestrate internal debate. In practice the Shah was much more concerned with balancing power. The wings were placed under the separate command of Hushang Ansari at the Finance Ministry and Jamshid Amouzegar at the Interior Ministry. Not only were these the two most powerful civilian Ministries but also their Ministers were the two chief contenders for the premiership. Amouzegar and Ansari were also personal rivals with no great affection for each other. The power-sharing was reflected in the names applied to the two wings – the 'progressive liberals' (Amouzegar) and the 'constructive liberals' (Ansari). Both sides apparently wanted to call themselves liberal but the distinction was between those like Amouzegar who believed in high growth but not at any price and those like Ansari who believed in high growth no matter what the consequences. In the party's final days a third wing was added to give it a greater sense of plurality.

In the party's brief history there was no evidence of it taking the initiative. In Parliament it encouraged the idea of debate – but on non-contentious issues like rents, traffic and the role of women. Key issues that affect national life like freedom of expression, internal security, defence or oil policy were never touched. The Majles was even expressly excluded from debating the budget of public corporations (like NIOC) whose expenditure amounted to over half the total budget and whose foreign borrowing requirement was the most significant.<sup>11</sup>

The distinction between the party executive and the government was deliberately obscure. One way or another, the majority of the Cabinet was represented in the party's Political Bureau. The party newspaper, *Rastakhiz*, came to be regarded as the official organ of the government – incidentally claiming a daily circulation of 150,000. This was in spite of all newspapers and reporters being affiliated to the party.

This lack of a clearly defined role and its ambiguous relationship with the government was merely a reflection of *Rastakhiz*' inherent disposability. There was no sense of permanence about the party since it was so clearly a child of the Shah's creation and it lived or died at his

whim. Not surprisingly membership was prompted more by a cynical Iranian belief in political convenience than by genuine feelings that Rastakhiz added a new dimension in politics. Total membership at the end of 1976 was just over 5 million.<sup>12</sup> It never went higher.

The creation of Rastakhiz further obstructed the growth of an independent-minded press. The press played a wholly subservient role and was effectively absorbed into the executive. Its main function was to propagate and propagandise the activities of the monarchy and the monarch's policies as carried out by the government. It was a government public relations agency, only allowed to trespass into criticism where the issues were deemed inessential – like Tehran traffic or rents. When more contentious issues were discussed it usually meant a change in policy was being floated. Censorship existed but this usually took the form of self-censorship, which was more invidious. No proprietor was willing to risk going against the government since this meant closure.

In the absence of a free press, the Shah on occasions used rumour as a means of testing opinion. Tehran developed a fash bush telegraph that was frequently accurate. This was tolerated partly because it mollified to some extent the élite's frustration over censorship but mainly because it enabled the Shah to float ideas. In mid-July 1977 rumours began to circulate that Hoveida would be replaced as Prime Minister (Hoveida was holidaying in Corsica) by Hushang Ansari. Reaction was extremely hostile to Ansari; if a change was to be made Amouzegar was considered a more apt choice. Perhaps it was no accident that ten days later Amouzegar was chosen as the new Premier.

### **The Judiciary**

The judiciary was absorbed almost completely into the executive. Judicial decisions reflected the will of the government. Moreover the area of competence of the judiciary had been gradually eroded by military tribunals and by special civil service tribunals. Under both Reza Shah and Mohammed Reza Shah the legal system was based on the principle that the state can do no wrong.

Military tribunals since the late 1950s acquired a growing importance. These were staffed by military personnel (retired or serving), held on military premises and followed military rules. Martial law effectively extended over a large area of national life. Any member of the armed forces, whether in uniform or not, automatically went before a military tribunal even if the offence was a civilian one. Any crime that involved the use of a gun came within the competence of the military. More importantly, the military courts dealt with all cases affecting national

security – a blanket term which was loosely interpreted. In addition the military courts arrogated to themselves a host of vaguely defined offences. For instance military courts were used to try some of the offences in the anti-profiteering campaign of August 1975. In another instance the former head of Iran's civil aviation authority, Abdolqassem Hushang-Arbabi, was tried by a military court for alleged misappropriation of funds. The trial was *in camera*, the charges were never detailed and only the sentence published – a Rs111 million (\$1.5 million) fine.<sup>13</sup> The military argued that civil aviation was a military matter. Some felt that Arbabi had been framed out of political vindictiveness and the military trial was a means of preventing proper legal challenge.<sup>14</sup>

Where the judiciary had not lost out to the military, its authority was usurped by special tribunals serving the executive. These were only partially staffed by qualified legal personnel. They had unlimited powers to fine and sentence, powers that could not be challenged by appeal within the normal law courts. The most powerful were the civil service tribunals that had the right to try – or rather had developed the practice of trying – all infringements of civil service rules in addition to common law crimes like embezzlement, fraud and bribery. These courts had a loose definition of a civil servant. For instance, the managing director of a development corporation set up by Tehran municipality was tried and sentenced to four years' imprisonment after a civil service court had found him guilty of mismanaging municipal funds.<sup>15</sup>

Tax courts acquired considerable importance after 1973. They were administered by the Ministry of Finance, held on Finance Ministry premises and two of the three members of the bench were Ministry nominees. The third was a qualified judge on loan from the Justice Ministry who had a special salary paid by the Finance Ministry (on top of his normal Justice Ministry one). It hardly needs to be said that the Finance Ministry represented one of the parties in litigation.

In late 1976 the government began to prepare a major overhaul of legal procedures to streamline antiquated practices and cover some of the lacunas in the law. A number of progressive lawyers saw these moves, which included the downgrading of some of the activities of the Supreme Court, as a further shackling of the judiciary. One reform proposed to enlarge the competence of Arbitration Councils, a type of magistrate's court dealing with neighbourhood problems such as property title disputes. It was intended to raise the competence of these courts to try cases involving sums up to Rs200,000. An important group of lawyers protested that this would deny the ordinary citizen qualified legal opinion as the Arbitration Councils were staffed by

government-selected personnel without legal training. The Bill was none the less accepted by the Senate judicial committee after a debate of less than five minutes.<sup>16</sup>

The credibility of the legal system in the Shah's final days was low, and the rule of law non-existent because, of course, to admit the existence of the rule of law would undermine the Shah's authority. However, by castrating the judiciary the government to some extent hurt itself because there were whole areas, like commercial practice, where laws were needed but not provided, so complicating the development process.

### **The Imperial Court**

The Imperial Court and its executive arm, the Special Bureau, acted in some ways like a White House staff. These were the carefully selected men responsible for the smooth functioning of the monarchy, both in its ceremonial and executive functions. Through the Court the Shah's schedule was planned and most people had to pass through the Court to reach the Shah. Because it had the full weight of royal authority behind it, the Court was extremely powerful: its officials could cancel or overrule orders from all other bodies or individuals in government and they had considerable authority over the Shah's parallel government. The Court Minister ranks on a par with, if not above, the Prime Minister, though he never sat in on Cabinet meetings. Quite often the Court Minister himself had been a former Prime Minister.

One branch of the Court Ministry was devoted exclusively to looking after the private affairs of the Shah and the Pahlavi family. The other main branch concerned the organisation of the Shah's daily schedule. While the official duties of the Court Ministry were more ceremonial the Special Bureau had the primary responsibility of ensuring that the Shah's orders were carried out. It also acted as the final filter for the multiple channels of administration and control that the Shah employed.

The last head of the Special Bureau, Nasratollah Mo'inian, was a man of modest origins, regarded as a technocrat. Both the Special Bureau and the Court had small staffs although they could rely upon secondment either from the military or civilian sectors where necessary. Their budget was treated as part of the operational expenses of the monarchy which in 1977/8 was \$43 million.<sup>17</sup> This figure may not reflect actual outlays, which could easily be grafted on to the expenditure of other government agencies, and probably frequently were.

The Court Minister had responsibility over the Special Bureau and

was the man with the most privileged access to the Shah. The Court Minister usually acted as the royal intermediary whenever the necessity arose. Assadollah Alam, Court Minister for a lengthy period until August 1977, was an archetypal figure in this position: discreet, diplomatic and utterly loyal. He was a boyhood friend of the Shah, and wealthy in his own right. He had also direct experience of government as Premier in the wake of Ali Amini's dismissal. Even though weakened by illness from 1975 onwards, Alam was regarded as the one man who was not a member of the Royal Family capable of giving objective advice, and when Hoveida became Court Minister in August 1977, he remained as an elder statesman until his death in May 1978.

Associated with the Court were the activities of Empress Farah, the Shah's twin sister Princess Ashraf and other members of the Royal Family. The Empress had her own special bureau and staff which had an important area of patronage within the fields of the arts, charity, culture and education. Over the years the Shah had delegated more and more of his responsibilities to the Empress in these marginal areas so that they became almost exclusively her domain. The Ministry of Culture and Information, the museums, the various arts festivals and national television were all used as a means of royal patronage and extending the individual importance of those within her office (many of whom were related to her and the Diba family).

However, the position of the Empress was deceptive. She was not just the ceremonial adjunct of the Shah. Because she was known to be one of the handful that could speak frankly with the Shah and who had regular access to him, she acquired importance as an alternative means of gaining access to the Shah. She would also technically be regent in the event of the Shah's death and his son still being a minor. Access to the Shah immediately conferred influence in its own right. Channels to the Shah were so limited that visiting foreigners were sometimes asked to raise issues in their audiences. For instance, when a senior former American diplomat visited Tehran in early 1977, he was asked by several Iranians to raise issues on their behalf.<sup>18</sup> Foreigners were also considered more impartial and in the past the American and British Ambassadors have enjoyed a privileged role.

Princess Ashraf's role was less evident since the early 1970s, but she nevertheless remained an integral part of the Shah's system of government. She is credited with having the most astute brain in the Royal Family, and, although whimsical, of being the most determined fighter. She had been used for delicate foreign policy missions as far back as the end of the Second World War when, still a young woman,

she was sent by her brother to parley with Stalin. In a public role outside Iran, the Shah relied upon her to act as chief spokesman on human rights and on the emancipation of women. She was, until Empress Farah took over, heavily involved in promoting the Pahlavi dynasty image of philanthropy and remained the titular head of the Imperial Organisation of Social Services.

More recently Princess Ashraf's special bureau acquired significance, collecting Ministers and senior officials who for reasons of political expediency had been obliged to leave their jobs yet whom the Shah did not wish to have excluded from the system. For instance Iraj Vahidi, removed as Energy Minister in February 1977 as a sop to public opinion over drastic power shortages, ended up in her special bureau. The bureau had so many ex-government heavyweights that it became known as the 'elephants' graveyard'. The activities of the bureau itself were obscure apart from running the Ashraf Pahlavi Foundation established in April 1976 as a charity, which for instance donated £250,000 to Wadham College Library, Oxford. According to one report the bureau was used by the Shah as another parallel organisation monitoring projects in the civilian and non-security sector.<sup>19</sup>

Princess Ashraf was also useful to the Shah for her wide network of friends who gained important jobs in the administration — ambassadors, senior civil servants, etc. These also served as alternative channels of information for royal ears. In the jealous world of Court intrigue Princess Ashraf, although frequently away from Iran, kept a hand in important changes and decisions. Her third husband, Mehdi Bushehri, who lived in Paris, was used by the Shah as an important contact with French business interests. Bushehri was credited with having been the Iranian intermediary in arranging the sale of French nuclear reactors to Iran.<sup>20</sup>

### **The Unconstitutional Side**

The least-known and the most unconventional of the agencies created by Mohammed Reza Shah was the Imperial Inspectorate. Created in 1958, one year after SAVAK, its functions gradually expanded as the complexity of the Shah's own needs grew. It was answerable neither to the Majles, the Rastakhiz Party, the Cabinet, the police, SAVAK nor the armed forces — only to the Shah. There was no check on its use of power other than the Shah's will. Its competence extended over and above SAVAK.

There were only two heads of the Inspectorate since its creation both drawn from the military — the Shah trusted power in the hands of

the military. The last head of the Inspectorate, General Hussein Fardust, had known the Shah longer than almost any other close associate. As a boy he accompanied the Shah when as a Crown Prince he was sent to boarding school at Le Rosey, Switzerland. Fardust then followed a military career, instructing at the Tehran Military College and then running the Imperial Guard.<sup>21</sup> He was also one of the few outside the Royal Family whom the Shah saw socially.

As its name suggests, the Inspectorate was primarily investigative probing into political, economic and social matters. The staff was small and select, although it could be augmented by seconded personnel from the Ministries, the armed forces or SAVAK. The Inspectorate had a published budget of \$11 million in 1977/8 but its size bore no relationship to its importance.<sup>22</sup> Every organisation in Iran was under orders to co-operate with it and it was empowered to carry out regular, but unannounced, inspections in every sphere of government, central and provincial.<sup>23</sup> Its prime concern was monitoring how Ministries and individuals were carrying out the Shah's policies and investigating sensitive cases of misconduct or suspected disloyalty among high officials. It also appeared from time to time to monitor the activities of other members of the Royal Family, especially their business involvement. It seems it was most frequently used when civil servants were thought to have become too obviously corrupt.<sup>24</sup>

The Shah described its purpose:

Although the gendarmerie as well as other agencies of the Government often handle internal self-discipline very well, experience showed the need for an independent investigating authority. That is what *my* Imperial Investigation Organisation provides. Its staff can go anywhere, and without fear or favour investigate any alleged injustice [author's italics].<sup>25</sup>

The suggestion here is that it was at the service of the nation but this was largely cosmetic. In March 1976 the Inspectorate was called in to investigate allegations of corrupt practice involving two Under-Secretaries in the Ministry of Commerce and the British sugar company, Tate and Lyle. The allegations, made at the beginning of an anti-corruption drive, concerned attempts to overcharge the government on sugar purchases totalling 250,000 tons. The Inspectorate drafted in the assistance of a former deputy governor of the Bank Markazi and sent him with an investigatory team to London to examine Tate and Lyle's books. Interestingly, their investigations came to the embarrassing



conclusion that the allegations were untrue. To save face, the officials were brought to trial only to have the charges quashed. One suspects the trial was held in the knowledge that the charges would not stick, just to show that justice existed in Iran.<sup>26</sup>

The Inspectorate acquired new importance as the Shah trusted none of his own Ministries to provide accurate information on the state of the economy. He turned to the Inspectorate to investigate the failings of the revised Fifth Plan. In November 1976 a new body, the Imperial Commission, was created by special decree to monitor the economy. Moinian in the Shah's Special Bureau was designated a co-ordinator, assisted by representatives of the Inspectorate and SAVAK.<sup>27</sup> The Commissions also contained representatives of all Ministries and had eight subcommissions reporting on specific topics.

When still Prime Minister, Hoveida described the Imperial Commission as 'the most powerful arm of the executive'. He hoped that it would considerably streamline government.<sup>28</sup> At the PBO, the Director-General, Abdol Majid Majidi, claimed that the Commission gave him, for the first time, the capacity to cut through inter-Ministerial rivalry and properly evaluate the progress of projects.<sup>29</sup>

The Imperial Commission marked an important departure in policy by the Shah. For the first time he established a body that spanned the public and covert sides of his administration. It was designed to weed out inefficiency and incompetence in individual Ministries and agencies. A local newspaper commented that the Commission introduced into the government machinery the Shah's dual role of guide and critic: 'It provides a mechanism by which the Government can engage in a continuous exercise of self-evaluation and self-criticism.'<sup>30</sup>

The creation of the Commission underlined how difficult it was to have an efficient administration with so much overlapping authority and parallel power. By including all these different bodies in one commission the Shah hoped to achieve a measure of co-operation from what were often mutually antagonistic agencies. The Commission was thus the furthest that the Shah's system would permit 'independent' criticism. As such, it was eloquent testimony of the nature of the system that the Majles was ignored and that the strength of the Commission derived solely from the Shah's direct backing and the presence of senior members of the Inspectorate, SAVAK and the armed forces.

### **The Security Services**

Over twenty years the security services became a central pillar of the Shah's system of government. The armed forces may have been the

ultimate guarantors of power; but the security services ensured that the armed forces were never used in this role. They were the Shah's eyes and ears and, where necessary, his iron fist, neutralising all those disloyal to the régime.<sup>31</sup> Since its establishment SAVAK thrived on Mohammed Reza Shah's deep-felt need to insulate himself and his régime from all potential enemies. For SAVAK there were only those who approved of Mohammed Reza Shah and those who disapproved. Disapproval was potentially subversive and in need of frequent surveillance to check whether it had crossed over into outright opposition. SAVAK alone defined opposition

SAVAK acted as both an intelligence service and a political police force concentrating on Iranian dissidents. Espionage and military intelligence were the concern of another organisation, known as J-2, which was also believed to be a watchdog of SAVAK — even in the security field the Shah wanted to have overlapping authority and alternative channels.<sup>32</sup> In fact the Imperial Inspectorate was the only superior agency and normally SAVAK was answerable directly to the Shah. In the name of protecting the interests of state, SAVAK could arrest, interrogate, imprison and eliminate individuals without challenge or scrutiny.

The Shah regarded SAVAK as a necessary arm of government. Not long after the organisation's establishment, he commented

In counteracting subversion, we have also found that the main emphasis should always be placed on social justice rather than on coercion and control measures. It is true that, especially in a country as strategically placed as we are, there may be a need to act quickly and decisively to combat attempts to topple the Government by unconstitutional means, particularly those which are foreign inspired. Today every free country needs a political security agency which, in cooperation with other Government departments, can detect and neutralise attempts of that kind. In present day conditions any other course would be reckless.<sup>33</sup>

SAVAK operated under the protective cover of the military but was theoretically attached to the Prime Minister's office. All public discussion of its activities was prohibited since this would be a breach of the military secrecy regulations. The civil courts had no power over SAVAK's investigations since its prosecutions came within the sphere of military tribunals where the judge and personnel were military. In June 1977 some amendments were made to the regulations govern-

military tribunals, including an obligation to hold public trials and the institution of a sort of minimal habeas corpus once a detainee had appeared before a military prosecutor.<sup>34</sup>

These changes were essentially cosmetic and made no attempt to bring the tribunals under the control of the judiciary. Much also depended upon interpretation. For instance Article 192 had been revised allowing public trials:

Sessions of military courts shall always be public. However, if the prosecutor shall exceptionally feel that a public trial is prejudicial to public order and public interest, he may request the court for a secret trial. If the court accepts the prosecutor's request, it shall issue the order for a secret trial. At the end of the trial, the judgement of the court shall be read only to the prosecutor, the accused and the defence lawyer.<sup>35</sup>

Within three weeks of this new provision coming into force a well known opposition figure associated with the former National Front, Ayatollah Mahmoud Taleghani, was sentenced to ten years' imprisonment on unspecified charges in a secret trial. Not even the sentence was published.<sup>36</sup>

The links between SAVAK and the military establishment were never entirely clear. The four persons who ran the organisation from its inception all had military backgrounds. General Nematollah Nassiri, graduated to SAVAK from running the Imperial Guard.<sup>37</sup> The senior personnel within SAVAK also had military backgrounds.<sup>38</sup> Further it seems – although there is no hard evidence – that SAVAK was financed either from secret state funds or more probably from within the overall defence budget. The budget contained a classification 'establishment of internal order and security', but this covered the gendarmerie and the police and allocation from these items was most unlikely since it would compromise SAVAK's autonomy and one of the Shah's cardinal principles of separation of powers.<sup>39</sup>

The absence of a published budget led to some wild estimates on SAVAK's size. In the past the regularly employed members of SAVAK had been guessed at between 30,000 and 60,000.<sup>40</sup> The lower figure is almost certainly more accurate. However, SAVAK relied extensively on part-time informers and personnel already employed by other government agencies. If these were included, then the figure of SAVAK personnel rises to even beyond 60,000.

SAVAK's all-embracing brief meant that it could overrule Ministries

and other government agencies. For instance in the field of labour, both the Ministry of Labour and the Ministry of Interior were responsible for work regulations and the running of the state-controlled labour syndicates. Nevertheless SAVAK had the task of ensuring that labour did not become politicised or exploit industrial action for political ends. This therefore gave SAVAK an important say in labour policy. Frequently, SAVAK intervened in petty issues in the affairs of the Ministries. For instance, Iranian delegations travelling on official business to Eastern Europe were obliged to go through special security vetting that resulted on occasions in government officials being refused visas.<sup>41</sup>

SAVAK also interfered extensively with the Ministry of Information and Culture on matters of censorship and artistic control. The banning of plays, films or the refusal of permission to publish books were an integral part of SAVAK's function. SAVAK could also overrule decisions of the Ministry of Posts and Telecommunications regarding communications equipment - the installation of telex machinery required SAVAK approval and those who operated the machine had to be named. It was rare, however, that directives were issued in the name of SAVAK: rather SAVAK operated from behind, telling Ministries to act, and so avoiding a direct connection with a specific action or decision.

Over all, SAVAK's activities clogged up the administrative machine and considerably reduced its efficiency. SAVAK could, for instance, even have a say in the granting of industrial licenses, in the right to import certain equipment (short-wave radios and paging systems were banned from sale to the general public on security grounds which always led to conflict with the Health Ministry over hospital systems) and in the clearance of goods from customs. In any area remotely connected with national security, SAVAK had the final say on employment. This led, for instance, to great difficulties at Tehran airport in finding qualified technical personnel to pass the security muster.<sup>42</sup>

This constant interference, or threat of interference, led to a good deal of friction between SAVAK and senior civil servants. Because the civil servants were afraid of SAVAK they hid behind instructions and regulations, unwilling to venture beyond the strict limits of bureaucratic responsibility. It was not a situation which encouraged individual initiative. Although in many important respects counter-productive, these results were the price paid for a blanket approach to security. Given the Shah's sense of insecurity and the unchecked nature of SAVAK's power, there was a built-in tendency to overreact. Over the

years the focus of SAVAK's attention shifted. Initially it was primarily directed against anyone connected with Mossadegh and his banned National Front Party or those connected with the Tudeh (Communist) Party. By the mid-sixties SAVAK could claim to have rounded up, chased into exile or effectively silenced the majority of these; and so it began to focus on the opposition in exile, and at home the students, intellectuals, religious leaders and underground extremist groups. It was particularly concerned with Iran's rapidly expanding student population: those capable of seeing the cracks in the Shah's vision and the most fearless of protest. Student surveillance was all-embracing. At the universities, especially in Tehran, there were probably two or three informers per class. Academics were carefully vetted for their political affiliations and as part of a teacher's contract discussion of politics was expressly forbidden. Textbooks and courses, especially on history and sociology, were doctored. All this was done ostensibly in the name of the governing body of the university; but the directives to the governing body came from SAVAK. To forestall the interference of SAVAK, the university authorities also censored themselves – a more insidious form of control.<sup>43</sup>

Dissidents faced the prospect of intimidation, interrogation, torture and imprisonment without trial.<sup>44</sup> A report prepared by William Butler, head of the executive committee of the International Commission of Jurists concluded in 1976 that over the past years torture had been systematically used to extract information. 'The number of detailed allegations made, the absence of any impartial investigation and the fact that the SAVAK knows that it is the law inevitably leads to this conclusion.'<sup>45</sup> Two years earlier the Secretary-General of Amnesty International described Iran's human rights record as worse than any other country in the world.<sup>46</sup> Latterly the Shah himself made no secret of the use of torture, though insisting it was confined to psychological, not physical, methods.<sup>47</sup> There was, it seems, a connection between increased resort to torture in the late sixties, early seventies, and the upsurge of a well organised urban guerrilla movement.

SAVAK's basic weapon was intimidation. If a person was considered troublesome but had committed no offence, exit visas and passports were denied. A number of persons active under Mossadegh and again under Dr Amini had been denied passports for over fifteen years.<sup>48</sup> Alternatively, job promotion was denied. Pressure was brought to bear upon students with the threat of refusal or withdrawal of grants to study abroad. At the time of the creation of the Rastakhiz Party, inspired rumours circulated that those who did not register would be

denied exit visas. The rumour proved groundless but people did register out of fear of this reprisal.

Pressure on family or friends, or the threat of charges which a person was powerless to disprove, were the standard methods of obtaining collaboration. Even military defence lawyers in military tribunals were under pressure not to sympathise with their clients; and there have been instances of prosecution of military defence counsel.<sup>49</sup> Any defence counsel honestly defending his client was invariably called upon to challenge the legality of the process, the validity of evidence, or both – itself an inherent criticism of the system. A more direct form of intimidation was lengthy detention without trial. This had been applied to recalcitrant writers as well as politicians. For instance, Dr Shahpour Bakhtiar, who had been associated with the National Front, had been imprisoned on six different occasions, but only tried once.<sup>50</sup> SAVAK also had at its disposal a series of nation-wide security commissions that could send people into exile in various remote parts of the country. Ironically these commissions were formed under Mossadegh to prevent sabotage of oil installations and to protect the régime from subversion. They were subsequently refashioned into 'exile courts'.

The security commissions were composed of representatives of the police, gendarmerie, the judiciary, the local town governor and SAVAK, which was responsible for bringing people before the body. They were mainly used to deal with rebellious religious figures, like the 40 leading mullahs from the religious city of Qom who, in late 1973, were banished to various parts of the country, like Bandar Lengeh, for periods of up to three years.<sup>51</sup> The ultimate form of intimidation was the threat of death. Among the educated there were few who could not cite the names of people they knew either directly or indirectly, who disappeared without trace. Occasionally this could be attributed to deliberately going underground; but more often it was the work of SAVAK.<sup>52</sup> Perhaps just as important, it was believed to be the work of SAVAK. For instance, in July 1977 an exile opposition figure died unexpectedly in London and his friends immediately suspected SAVAK. In fact he died from a heart attack.

Because SAVAK was a law unto itself, there was no way of checking the limited information that came out about its activities. Descriptions of the capture of urban guerrillas in the local press read unconvincingly. A surprising number of well trained and determined 'terrorists' managed to die from a grenade going off prematurely in their hands, and even this doctored information filtered out several days late.<sup>53</sup> Relatives were rarely allowed access to autopsy reports, and besides,

medical evidence could be rigged and frequently was thought to be so. In March 1975 nine political prisoners, tried in 1969 and serving ten-year terms, were alleged to have been shot while attempting to escape. Two French lawyers subsequently came to the conclusion that they had been tortured to death.<sup>54</sup>

All this begs the vital question of SAVAK's efficiency and effectiveness. SAVAK succeeded in intimidating all except the hard-core guerrillas, a few determined intellectuals and religious figures, and the exiles abroad. Its activities — real and imagined — created a fear of authority and had Iranians being afraid of the mere threat of SAVAK's intervention.

This said, the aura of efficiency that tended to surround SAVAK was exaggerated, and misleading. SAVAK was clumsy, interfering and cruel; and, as an organisation, riddled with administrative and personal pettiness, frequently blinded by a bully-boy mentality. Though effective, the blanket approach to security that SAVAK adopted was inefficient. For fear of one individual escaping, the net was cast very wide. Arguably the large number of political prisoners in Iranian jails resulted from precisely this fear that it might not arrest the right person. Since 1973 there were at any one time between 3,500 and 7,000 political prisoners, of which less than half were formally charged.<sup>55</sup> For instance, in December 1976 over a hundred persons were arrested in what SAVAK later claimed to be a major breakthrough in cracking Marxist subversion. However, only eleven were eventually put on trial in April 1977.<sup>56</sup> Other examples of SAVAK's efficiency were more mundane. To prevent the inflow of subversive literature into Iran, all books entering the country were liable to confiscation. Some 700 books belonging to the author were only prevented from being confiscated by a senior official intervening with the customs under instructions from SAVAK. Mail was opened with a lack of subtlety that would appal most detective agencies — opened and then clipped together with staples. (Iranians argued that this was because SAVAK was so arrogant it did not have to pretend.) In another instance, SAVAK asked the Foreign Ministry to obtain the names of all Iranians granted visas by Arab countries. A letter was duly sent out to all Arab embassies in Tehran with this request. In the case of Tunisia no one in SAVAK realised that a consular convention between Iran and Tunisia in 1972 abolished visas.

Undoubtedly SAVAK served its purpose but it made a mockery of the rule of law which the Constitution established. SAVAK's activities were at the expense of all politically minded Iranians, and were responsible in large measures for the cynical indifference of the Iranian élite.

Last but not least, SAVAK's presence reduced the efficiency of the administration through cumbrous duplication and made officials unwilling to shoulder responsibilities or take initiatives.

## Notes

1. Arthur Arnold, *Through Persia by Caravan* (London, Tinsley Brothers, 1877), Vol. 1, p. 219.
2. Marvin Zonis, *The Political Elite of Iran* (Princeton, N.J., Princeton University Press, 1971), p. 133.
3. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1974 edition), pp. 321-2.
4. Plan and Budget Organisation, *The Budget 2535 (1976/77)*, Part III, p. 16.
5. Recounted to the author by a Western ambassador in Tehran.
6. Recounted to the author by an Iranian of Ministerial rank.
7. The combined budgets of these bodies were \$700 million in 1976/7. See PBO, *Budget*, Part III, pp. 18-19.
8. *Iran Almanac Echo of Iran*, Tehran, 1977, p. 16. The creation of the Rastakhiz was a complete surprise and appeared to contradict the Shah's previous philosophy of wanting to have at least two loyal parties to manipulate.
9. *Kayhan International*, 23 April 1977. Interview with Darioush Homayoun, deputy Secretary-General of Rastakhiz.
10. *Iran Almanac*, 1977, p. 91.
11. PBO, *Budget*, Part I, p. 7. This percentage is smaller when double counting is taken into account.
12. *Iran Almanac*, 1977, p. 119.
13. *Kayhan International*, 28 April 1977.
14. This was the view of both Iranians and foreigners involved in civil aviation. Arbabi was removed from office in January 1977, but no mention was made in the press of this or of any charges until the brief trial result.
15. *Kayhan International*, 3 March 1977.
16. Recounted to the author by one of the 47 lawyers involved in the original protest. At a subsequent meeting at the Park Hotel on 12 July 1977, 64 lawyers signed a protest letter to the Shah calling for the independence of the judiciary, observance of the rule of law and respect for the Constitution.
17. PBO, *Budget*, Part III, p. 46.
18. The official referred to was Jim Atkins.
19. Another theory is that this bureau was used as a means of keeping officials so that after a suitable period of time they can be once again reintegrated.
20. Recounted to the author by an expatriate involved in the reactor contract.
21. Mohammed Reza Shah Pahlavi, *Mission*, pp. 54-5.
22. PBO, *Budget*, Part III, p. 47.
23. In June 1977 a special decree extended the Inspectorate's powers to carry out on-the-spot provincial inspections. *Kayhan International*, 12 June 1977.
24. Perhaps it is wrong to talk of the Inspectorate having a main use as its value depended upon its total flexibility.
25. Mohammed Reza Shah Pahlavi, *Mission*, p. 177. At the time the Shah also conceived the Inspectorate as a sort of Ombudsman for complaints about his administration; but it was not used convincingly in this role.
26. *Financial Times*, 4 May 1976 and 14 November 1977. See also *Kayhan International*, 11 December 1976. These proceedings were believed to have been



politically motivated. The Inspectorate team who went to London revealed a very bureaucratic approach to investigation and found it hard to understand the intricacies of commodity trading.

27. *Kayhan International*, 9 November 1977; *Iran Almanac*, 1977, pp. 114-15.

28. *Kayhan International*, 22 May 1977.

29. Comment to the author by Abdol Majid Majidi, 16 June 1977. In a report on Iran released by the International Labour Office in Geneva in 1973, one of the main conclusions was that the PBO carry out inspections 'to check on the reliability of the information received'.

30. *Kayhan International*, 23 May 1977.

31. See Chapter 4. SAVAK stands for 'Sazemane Ettela'at va Amniyat-e-Keshvar'.

32. See Zonis, *The Political Elite*, p. 85. There appears to be a grey area where SAVAK competence ends and that of J-2 begins. Iran's increased defence capability and regional military role suggests that J-2 had its hands full dealing with military intelligence matters.

33. Mohammed Reza Shah Pahlavi, *Mission*, p. 129.

34. *Iran Almanac*, 1977, p. 486.

35. *Ibid.*

36. Recounted to the author by lawyers connected with the case.

37. Gen. Nassiri was replaced in June 1978 by Gen. Mohammed Moghadam, formerly director of military intelligence. Nassiri was appointed Ambassador to Pakistan, the same post given to his predecessor, Gen. Pakravan, when he was replaced.

38. SAVAK was organised on army lines with army ranks applied to officers.

39. PBO, *Budget*, Part III, p. 45.

40. Exiled opposition sources talked of SAVAK numbering 100,000.

41. Recounted to the author by an Iranian official. The author has witnessed a telephone conversation in a Ministry during which an official remonstrated with SAVAK to permit someone to travel on an official delegation.

42. Recounted to the author by the manager of an international airline in Tehran. Airline managers were also requested not to fraternise with Aeroflot or Chinese National Airlines staff.

43. Based on information supplied to the author by persons who have taught at Tehran University and Aryamehr University.

44. SAVAK also had an unpleasant habit of employing 'loyal' workers to break up demonstrations. This was done particularly blatantly on two occasions in October 1977, when busloads of workers 'happened to be passing' by the university campus in Tehran, and 'incensed' by anti-Shah demonstrations, attacked the demonstrators with clubs.

45. *Le Monde*, 3 October 1976.

46. *Observer*, 26 May 1974.

47. Shah interview with Lord Chalfont for BBC, 17 June 1975; and also Shah interview with David Dimbleby, BBC, reproduced *Kayhan International*, 18 December 1976.

48. This was one of the least publicised measures adopted by SAVAK but is an important human rights violation. The author knew of at least two persons affected. Even with a passport there was no guarantee of leaving the country. All passports were surrendered 24 hours before departure and collected at the airport. It was not infrequent for people to arrive at the airport and discover they had no passport.

49. Under the new regulations of June 1977, a lawyer was theoretically exempt from prosecution (see note to Article 182). However, the basic problem of the legality of the military tribunals remained unchanged.

50. Recounted to the author by Dr Shahpour Bakhtiar.

51. Little is known about these Security Commissions. This information is based on facts supplied by a group of lawyers who appeared for clients in these 'courts'. In one incident a judge on submission from a lawyer ruled that an elderly mullah exiled to Zabol could have his place of exile changed because he should not suffer undue hardship. This loophole was subsequently closed.

52. This assertion is based on conversations with both the Iranian Establishment and opposition figures. Typical of the suspicion prevalent was the reaction to the death of Mostafa Khomeini, the 45-year-old son of the famous Ayatollah who sparked the riots of 1963 and who was subsequently exiled. Mostafa died in unexplained circumstances at the holy shrine of Kerbala, Iraq. See *Le Monde*, 31 October 1977.

53. Compare the account of *Kayhan International*, 22 February 1976 and *Kayhan International*, 18 November 1976.

54. *The Times*, 22 May 1975.

55. The Shah's own figure varied, but he never admitted a higher figure than 3,300. See *Kayhan International*, 18 December 1976.

56. *Kayhan International*, 10 April 1977. This was the first political trial of persons charged with anti-state offences open to the public and international observers for many years.

## 9

## CONTROL THROUGH MONEY

I am hopeful that the Pahlavi Foundation will develop into one of the great charitable institutions of the world. While it is less wealthy than the larger ones of Europe and America, it is steadily expanding the scale and scope of its activities.<sup>1</sup>

More than any other single factor, money and wealth have been the cement for Mohammed Reza Shah's system of government. He refined and adapted time-honoured practice. In 1910, when an American, Morgan Shuster, was brought in as Treasurer General in the first attempt to organise the state's chaotic finances, he discovered that some 100,000 persons received special annual handouts, most of which he considered 'pure graft'.<sup>2</sup> On one authoritative estimate almost a quarter of all state revenue at the turn of the century was devoured by these so-called pensions.<sup>3</sup>

In the past the monarchy was able to bind its power base with money either by controlling state revenues or by amassing a large private fortune. More often than not these two alternatives were indistinguishable since there was little practical division between the private wealth of the Shah and state funds. Moreover, the Shah did not have to make such a distinction since he regarded himself as embodying the state. The modernisation of the administration and the advent by the mid-fifties of a regular and sizeable income from oil, coupled with the expansion of the economy, inevitably made the reward system more complex. Of necessity the distinction between state funds and the private wealth of the Shah, albeit on paper, became more clear-cut. The budget became institutionalised so that a specific allocation was made for the 'Supreme Leadership of State' which in 1976/7 amounted to \$43 million.<sup>4</sup>

More importantly, the expansion of the economy and the increased revenue from oil resulted in a shift in the direct burden of reward – away from the royal purse and on to state funds. The budget was even used quite unashamedly to bankroll operations which the monarchy would have supported out of its own pocket in the past. For instance, the budget provided annual cash backing for such things as Tehran's privately owned exclusive Imperial Country Club, the Imperial Horse Society and the Imperial Aviation Club.<sup>5</sup>

The expansion of the economy also provided the Shah with a greatly diversified set of rewards. He utilised the granting of trading

and manufacturing monopolies and restricted licences or agencies for international companies as a means of making people beholden to him. In a heavily protected and fast expanding economy like that of Iran such concessions were highly profitable. The most profitable arrangement permitted was the acceptance by the Shah of certain trusted individuals as intermediaries in large-contract negotiations with international companies in the defence and civilian fields. In return for permitting the intermediary a 1 per cent commission, the Shah was kept fully informed on negotiations. For instance, in 1971 a £1 million commission was paid to Sir Shapoor Reporter for his part in arranging for the sale of British Chieftain tanks to Iran. This money was paid by the British government with the Shah's knowledge on what was essentially a government to government sale.<sup>6</sup> Granting of licences or asking select individuals to establish monopoly industries also allowed the Shah an important form of personal control. For instance, the establishment of the most important modern defence industries was entrusted to one man - Abdol Hassan Mahvi. He assisted in the creation of military electronics industries, the aircraft servicing and repair industry and a naval servicing company.<sup>7</sup> Thus while Reza Shah was concerned (some would say obsessed) with building up a huge fortune for the Pahlavi dynasty as a means of control and reward, his son had less need simply because money was available in more diversified forms. It was sufficient for Mohammed Reza Shah to exercise ultimate control over the state economic apparatus. Nevertheless, he was careful to maintain a certain blurring of the distinction between state funds and royal funds to ensure that, when necessary, the former were at the disposal of the regime.

### *The Role of NIOC*

The ambiguity between state funds and the royal purse was most evident in the National Iranian Oil Company (NIOC). The Chairman of NIOC held one of the most important posts in the country - the equivalent of a senior Cabinet rank. He was appointed by the Shah and answerable only to him. During NIOC's formative years this post was held by Dr Manouchehr Eqbal, a man close to the Shah with a proven record of loyalty. He was Prime Minister for over three years until forced to resign in 1960 over allegations of pro-Shah vote-rigging.<sup>8</sup> NOIC, as the most important national agency in the economy, was directly beholden to the Shah. Its budget was presented to the Plan and Budget Organisation, but never discussed in detail. Its full accounts (which follow a calendar year, not the Iranian year) were seen by only a

transfer from NIOC.<sup>14</sup> Although the motive for publication appeared deliberate embarrassment of the Shah, the veracity of the document has never been challenged. Though clearly unsatisfactory, this document is the closest published proof of what many believe to be both a use for secret NIOC funds and a link between NIOC and the Pahlavi Foundation.

### *The Pahlavi Foundation*

Officially the Pahlavi Foundation was a charity organisation sponsored and financed from Mohammed Reza Shah's wealth. It was listed as such in all Iranian publications.<sup>15</sup> In practice it was nothing so straightforward. Behind a smokescreen of charity, the Foundation was used in three key ways to assist the régime: as a safe and institutionalised conduit for 'pensions'; as a means of exerting economic control or influence by investing in specific sectors of the economy; and as a source of funds for royal ventures. In a hard-hitting assessment, Marvin Zonis had this to say about the Pahlavi Foundation:

It is unquestionably true that the Foundation plays a crucial role in all areas of Iranian public life. After the government itself, it is the most powerful economic force in the country. It seems certain, however, that a great deal of its resources are spent maintaining and enhancing that economic power. Resources devoted purely to charity rather than commercial undertakings appear relatively slight.<sup>16</sup>

According to the Shah, he established the Foundation in 1958 as a non-profit-making organisation to co-ordinate a group of social services in which he was interested.<sup>17</sup> The Foundation replaced what was known as the Pahlavi Estates Office, created in 1951 to handle the proceeds of the sale of Crown land to tenant farmers. These estates comprised over 830 villages with a land area of more than 2.5 million hectares, all of which was acquired in under twenty years by Reza Shah. Although established in 1958, it was not until 1961, when the topic of royal wealth became politically sensitive, that the Shah chose to transfer the more substantial Pahlavi assets to the Foundation. At the time, these assets were valued at approximately \$135 million. This, the Shah claimed, represented 90 per cent of his personal fortune: put another way, the Shah still possessed about \$15 million worth of personal assets.<sup>18</sup>

Such a claim was almost certainly an overstatement. Back in 1947,

when the Shah established the Imperial Organisation for Social Service (IOSS) to pioneer mass welfare in Iran, he was reported to have allocated Rs60 million (under \$1 million) to this new body which was said to be equivalent to half his fortune.<sup>19</sup> Nevertheless he vested more of his personal assets in the Foundation than he is generally credited with doing by his opponents.

The reason for this is twofold. In terms of political propaganda the divestiture of his wealth to a supposed charitable organisation relieved some pressure on the Shah from those who regarded Pahlavi assets as ill-gotten, or in reality belonging to the State. More important, by transferring his wealth to the Foundation, it could still be used for the very same purpose for which it was intended under previous monarchs – to keep the Shah in power. All he did was to institutionalise the extensive wealth of the Pahlavis – a collective wealth exceeded in the Middle East only by the House of Saud in Saudi Arabia and the al-Sabah ruling family in Kuwait.<sup>20</sup> The Foundation operated under the aegis of the Court. The Shah from the outset appointed himself chief Custodian. As such he was entitled to 2.5 per cent of the net revenues, but this he waived. He also appointed the ten Custodians, five of whom were state office-holders – the Prime Minister, the Court Minister, the head of the Senate, the Speaker of the Majles and the Supreme Court Justice (all posts appointed by the Shah anyway) – and five direct nominees. The latter were all entitled to 2.5 per cent of total net income 'equally shared'.<sup>21</sup> The last deputy chief Custodian was Jafar Sharif Emami, who was also head of the Senate. Though once associated with Mossadegh's National Front, Emami was considered a loyal servant of the Shah.

The front of a charity organisation was an impressive one. The Foundation was involved in a large number of charitable causes and good works ventures. Since its inception up to March 1977, the Foundation financed the education abroad of 12,000 students with direct cash grant or loan assistance. Only 25 per cent of the total sum loaned to each student was reimbursable. The Foundation put great store by this activity and estimated that the average *per capita* cost each month was \$500 for students studying abroad.<sup>22</sup> The Foundation provided assistance to the deaf, dumb and blind; clothing for certain especially needy; supported the cost of food for the faithful during the fast of Ramadan in certain cities; and assisted orphans. It provided pensions and assistance to the families of those who lost their lives for the country – this included members of the police and security forces killed by urban guerrillas.

The Foundation also ran a book translation and publishing company that reprints Persian and foreign classics. Up to March 1976 this company had printed 476 titles.<sup>23</sup> Through other institutions the Foundation was involved with more charitable organisations like the Farah Pahlavi Foundation, which operated 87 boarding houses, nurseries and youth centres; the Queen Pahlavi Foundation (a charity founded in the name of Mohammed Reza Shah's mother), the Ashraf Pahlavi Foundation and the Shahnaz Youth Clubs. Largest of all these was the Imperial Organisation for Social Service (IOSS), which operated over 250 clinics and 10 hospitals.

These charitable activities were carried out in the name of the Royal Family and were used as a means of royal patronage. Nevertheless the Pahlavi Foundation and the royal purses were not always the prime contributors. The burden had been shifted on to the state. The state budget, unbeknown to most Iranians, provided direct assistance in a substantial way. Almost half the IOSS budget was met from the Treasury (\$80 million), the book translation and publishing company received \$700,000; the Queen Pahlavi Foundation was given \$10 million; the Farah Pahlavi Foundation \$22 million, and the recently established Ashraf Pahlavi Foundation \$105,000. The combined annual subsidy from the budget for these philanthropic and charitable activities – for which the Pahlavi family drew kudos – was over \$100 million.<sup>24</sup>

These philanthropic activities could not claim to be entirely altruistic. The Foundation had built up directly, via the book translation and publishing company, and indirectly, via the 25th Shahrivar Publishing Company, owned by the IOSS, the biggest single controlling interest in Iranian publishing. In particular the Shahrivar Publishing Company supervised the printing of all school textbooks in Iran – some 50 million copies of 428 titles each year.<sup>25</sup> These textbooks could easily be controlled to present material favourable to the régime, and frequently were. This stranglehold on educational publishing was a formidable potential weapon of control. In a lesser vein the orphanages run by the Foundation, or its adjunct the Farah Pahlavi Foundation, were used as recruiting grounds for the police and gendarmerie.<sup>26</sup>

### *The Extent of Assets*

To appreciate the full extent of the Pahlavi Foundation's all embracing presence in Iran, it is essential to have an idea of its assets. Just after its creation, the Shah described the Foundation's assets as shares or interests in a 'number of hotels (mostly constructed by my father); cement factories, sugar factories, our Iranian National Insurance

Company, a bank, merchant ships and various other industrial and commercial undertakings'.<sup>27</sup> This in itself demonstrated how deeply involved the Pahlavi family had been in the country's economic affairs.

The original list of assets has never been fully published. Since 1961 there has been no mention of new acquisitions or any changes in the nature of the investments. The Foundation did not even choose to disclose that it had off-loaded to NIOC one of its bigger activities – the ownership and operation of the National Iranian Tanker Company. This was sold off gradually but completed in 1970. The Foundation itself refused to part with any information concerning the value of its assets, annual income or the composition of investments.<sup>28</sup> Even foreign bankers who had been invited by the Foundation to do business were merely presented with an unsatisfactory list of the original assets at historic book value.<sup>29</sup> Thus, to provide an accurate, or even a reasonably accurate estimate, is impossible. It is more than likely too that the Foundation itself had no accurate idea either. One can therefore only arrive at a conservative guesstimate of between \$2.8 billion and \$3.2 billion. This excluded liabilities and did not fully take account of the enormously variable element in the value of property.<sup>30</sup> In the last resort, however, the value of the assets made little difference so long as the Shah's control over the country's economic apparatus was unchallenged.

The Foundation's charter sanctioned diversification 'to supplement the endowment revenues'. To this end, investments could be made 'in productive and profitable development ventures and purchases of new properties'.<sup>31</sup> This enabled the Foundation to further strengthen the Royal Family's close association with most major economic activities, fostered by Reza Shah.

The most important asset held by the Foundation was its 100 per cent ownership of the Bank Omran, the fifth largest commercial bank in Iran. The bank was founded in 1952 and intended to finance the development of agriculture on Crown lands and assist the peasants in the purchase of these lands. The more cynical regarded the bank's creation as a debt collector of funds owed to the Crown from the sale of land; and there was more than a grain of truth in this. In any event, what was conceived as a development bank quickly grew into the bank of the Royal Family.

The nature of the Bank Omran was aptly illustrated by the composition of its seven-man higher council. It was headed by Emami, who ran the Foundation. He was assisted by the Court Minister, always a close associate of the Shah. Also on the board until his death in November



1977 was Eqbal of NIOC; the head of Iran Air, Lieutenant-General Khademi; the head of the Iran Chamber of Commerce, Taher Ziyadeh, and Mehdi Samii, a former Governor of the Bank Markazi and head of the Agricultural Development Bank. Samii was the only person with proper banking experience. The Shah also ensured that Mohammed Jafar Behbehani was on the council. Behbehani, who served the Court for 33 years, acted as the Shah's private treasurer and was used as a front man for royal financial activities.<sup>32</sup>

In July 1977, at the time of the publication of the bank's latest results, it had assets totalling \$1.05 billion and a capital that had been increased to Rs5 billion, equivalent to \$81 million.<sup>33</sup> That year the bank declared a dividend of \$4.2 million, which went directly to the Foundation. On its own admission the bank was then scarcely involved in agricultural loans and had switched into property development. It had for instance a 30 per cent stake in 22,000 upper-income housing units being built at Farahzad in north-west Tehran, for which it was also providing financing. Total costs were in the region of \$200 million.<sup>34</sup> It was also financing for the Pahlavi Foundation three of the biggest tower blocks in Tehran at Vanak.

This heavy involvement in middle- and upper-income property development contrasted with the Shah's strictures about an over-emphasis on such activity in Tehran to the detriment of lower-income groups. However, in this way the Royal Family had direct access to, and knowledge of, the most profitable activity in Iran.<sup>35</sup> Bank Omran also acted as financier for a number of fringe projects for Iran's élite. The bank was financial controller of, and had a 20 per cent interest in, the development of the resort of Kish Island, off the Iranian coast of the Gulf. This was being developed at huge cost, conservatively estimated at over \$100 million, as a winter playground for the very rich. The Shah had a villa there with houses for select friends. The development envisaged the construction of 1,200 villas, three luxury hotels and a casino, a golf course and duty-free shopping facilities (for the first time in Iran).<sup>36</sup> The viability of such a project was questionable. Due to the heat in the Gulf the resort could be utilised for under six months a year and had to import everything, including 3,000 foreign personnel to operate it. However, financial viability appeared less important than keeping Iran's privileged class content. Interestingly, 80 per cent of the project was owned by SAVAK; and SAVAK had a representative on the board. This Savak involvement dated back to the time when General Bakhtiar ran SAVAK and acquired the island with SAVAK funds for \$2 million. When he was dismissed from SAVAK the island

became SAVAK property. Just prior to his death Eqbal was reported to be strongly resisting Court pressure for NIOC to take over some of the funding of the Kish Island project. His successor, Ansari who was switched from the Finance Ministry, shortly afterwards announced his intention of expanding NIOC's interests so that the oil company diversified into the hotel and leisure industry among other things.<sup>37</sup> The Foundation's banking interests were not restricted to owning the Bank Omran. One banker's estimate was that, directly or indirectly, the Foundation controlled over 15 per cent of the commercial banking system. It had a direct holding in at least three other commercial banks, including 30 per cent of the Bank Iranshahr, with assets of \$535 million. It had much smaller holdings in the Irano-British Bank and Bank Etebarat (see Appendix A). It also had a 1.6 per cent share of the development bank, DIBI, worth \$700,000.<sup>38</sup>

The Foundation's involvement with insurance was equally large. The Bimeh Melli, officially owned 80 per cent, but perhaps more, by the Foundation, was the third biggest insurance company in Iran. It was primarily concerned with insuring the Foundation's interests and had premiums of around \$5 million a year. In addition there were an almost equal amount of premiums coming from Bimeh Melli's lucrative insurance contract with Iran Air, for which it was the sole local insurer.<sup>39</sup> This was the second key link with Iran Air, as its chief was also on the council of the Bank Omran.

### *Conservative Approach*

On the whole, the Pahlavi Foundation was conservative in its approach to investment with a pronounced emphasis on vertical integration of construction interests, so assisiting its main activity: property development. The Foundation had important shares in two of the country's ten cement plants, including 25 per cent of the Tehran Cement Company – Iran's largest plant, accounting for 18 per cent of national production. It had a 30 per cent share in Iranit, a company that imports cement and building materials and recently established a company, Sangarveh Mining, to provide quarry products for the building trade.<sup>40</sup> Ironically cement and building materials were the items in the shortest supply since the 1973 oil price rises, and for which the biggest black-market prices were paid.

The Foundation was wary about large-scale involvement in heavy industry. Nor has this really been necessary since the Shah preferred to use state-owned companies for the strategic sectors; and the main appointees in these companies reported direct to the Shah. The

Foundation's principal holdings were in the motor industry (see Appendix A). Through a 10 per cent stake in GM Iran that had the licence for six to eight cylinder cars, it enjoyed 8 per cent of the car market. If GM's plans for a truck plan materialised it would have controlled 50 per cent of truck assembly. There were unconfirmed reports of a Foundation holding in Irannational, the largest automotive concern. Other important industrial holdings included shares in tyre-making, road construction machinery, leather, office machinery and pharmaceuticals.

The Foundation was strongly involved in agribusiness. This dated back to Reza Shah's establishment of a local sugar industry in the mid-thirties to lessen dependence upon what was then one of the country's main imports. The Pahlavi Foundation had a share in at least six sugar mills and sugar-beet factories, responsible for about 15 per cent of total capacity. For instance, the Ahwaz Sugar Beet Factory had a monopoly of operations in Khuzestan; while the Kermanshah plant in which it also had an interest was one of the three largest in Iran. Latterly the Foundation's involvement was indirect via equity participation of the Bank Omran. The bank held 20 per cent of a \$14 million venture to process meat near Qazvin, and was further involved in Khuzestan agribusiness via an interest in Iran Shellcott, one of the major large-scale ventures in this field with an allocation of 14,700 hectares.

Also dating back to Reza Shah's time was the Foundation's ownership of the country's largest chain of hotels. The hotels were primarily in the luxury or first-class category and in this sector the Foundation owned over 70 per cent of Iran's total bed capacity. In Tehran itself, the Pahlavi Foundation owned four leading hotels – the Hilton, the Vanak, the Evin and the Darband. Of these the Evin was being expanded at the time of the Shah's demise with a new tower block, the Vanak was being completely rebuilt and the Hilton had plans for a third wing. Outside the capital, the main hotels were concentrated around the Caspian, where it also owned the Caspian's two casinos. Directly or indirectly through Bank Omran, it had a monopoly of casinos.<sup>41</sup>

Until the mid seventies the Foundation eschewed foreign investment, and where money was placed abroad it sought a low profile. However, in 1973 the Foundation made a public entry into the international property market by buying the DePinna building on Fifth Avenue, New York. To do this, the Foundation was obliged to register as an American charitable institution with the declared aim of using the rental to pay for Iranian students studying in America. The advantage of charitable status in the US was that tax was avoided and the US authorities could not investigate the books of the parent Foundation

in Tehran. In 1975 the building had a book value of \$14.5 million. A new 36-storey building was then built on the site. The main clients were to be Iranian state agencies – the Iranian New York consulate, an information office, the NIOC and Iranian banks. Their rental payments were expected to provide an annual income of \$5 million. This arrangement illustrates the neat interlocking of the Foundation with the rest of the state apparatus.<sup>42</sup>

In addition to financing Iranian students, the large rental income was expected to take the burden off the Foundation in Tehran of financing grants to American universities for studies on Iran. For instance, Princeton University had an endowment of some \$500,000 and Columbia University received some \$18,000 per year.<sup>43</sup> This financing of Iranian studies or outright Iranian gifts to American academic bodies was criticised in the US as an attempt to obtain tame academics and buy respectability in the academic world.<sup>44</sup>

The Pahlavi Foundation latterly became active in searching the international property market for investment opportunities; and even employed a senior Member of Parliament, Senator Foroughi, to act as an international adviser in this respect. Bank Omran also began to turn to international property development. Through a long-standing association with a small US bank, First National Wisconsin of Milwaukee, Bank Omran became involved in a huge three-phase neighbourhood development – the Canal Street project – in New Orleans.<sup>45</sup>

The full extent of the Pahlavi Foundation's national and international assets are impossible to describe. For it is not always a question of the Foundation being called upon to invest. It was a practice in Iran for those establishing industrial and commercial ventures to offer small stakes to members of the Royal Family or to the Pahlavi Foundation direct. Usually this involved no more than 1 per cent but it could be more. This practice grew up out of the generally well founded belief that royal patronage was the most effective guarantee of profitability. This was the basis for part of Reza Shah's fortune. Latterly these interests offered to the Royal Family tended to be referred back to the Foundation. In the same way some of the commissions on contracts, especially defence contracts, paid to intermediaries were channelled to the Foundation on the Shah's instructions – though presumably with some cut for the intermediary.<sup>46</sup>

Those companies with Foundation equity tended to rely upon Sharif Emami to intercede for them, outside the normal administrative channels, if they had problems.<sup>47</sup> Within the business community there was a general assumption that Foundation associated companies and

ventures enjoyed a privileged status. For instance, B.F. Goodrich was prompted to sell up its share in its Iranian subsidiary partially because of a two-year price freeze. No sooner had the sale gone through to Iranian shareholders, which included the Foundation, the price freeze on Goodrich products was lifted.<sup>48</sup>

Yet it would be wrong to assume that royal involvement could always protect poor planning, bad management and international competition. For example, Bank Omran set up an investment company, Omran Trinwall, in 1974. Bank Omran took a 30 per cent share; and the intention was that Omran Trinwall handle overseas investments and act as a merchant bank. By July 1977, Omran Trinwall had exhausted most of its original Rs12 million capital and Bank Omran had only succeeded in alienating its partners.<sup>49</sup> In another instance a company formed by the Foundation with Krupp to build steel structures, Montex, was liquidated in July 1977 after never having become fully operational. Having formed the company, the Foundation seemed unable to decide what it should do and how it should operate — except provide sinecure jobs.<sup>50</sup> On occasions too the state was obliged to provide direct budgetary assistance to Pahlavi Foundation ventures like a \$1 million cash injection given to the Ghahestan Sugar Corporation in 1976.<sup>51</sup>

### *Uses of Income*

The economic power that came from controlling the Pahlavi Foundation was therefore obvious enough. Less obvious were the more clandestine uses of Pahlavi Foundation income. Here proof of Pahlavi Foundation activities relies more on hearsay than fact. Marvin Zonis, commenting on the Foundation's role of paying 'pensions', says: 'Outright pensions are still granted to elites and counterelites, the monarch's Pahlavi Foundation frequently serving as a conduit.'<sup>52</sup> Although written in 1971 this seemed to hold true until the end.

With a growing gap between civil servants' salaries and those of the private sector as a result of the 1973 oil price rises, the Foundation became an important source of fringe benefits to entice them into staying in their jobs. In particular, the Foundation was believed to be the conduit for end-of-year bonuses.<sup>53</sup> These bonuses were paid nominally out of the Shah's private purse. Foundation funds were also used to provide what were in effect straight cash grants in return for special favours, or on occasion low-interest loans — although the latter were usually channelled through the Bank Omran. The extent to which this type of activity was carried over into the military sector has never

activity did not increase over the years, and most believe that it had contracted, especially as the state made a more conscious effort to adopt welfare policies. One person involved in an abortive commercial venture with the Foundation commented 'You can remove the word Foundation'.<sup>57</sup> Certainly there is little doubt that were the Foundation obliged to pay in full for all charitable activities it supported in its name, or those of the related royal foundations, spare income would have been very limited — it would probably have been unable to support any other activity outside charity

investment needs and operating costs. See PBO, *Budget, Part III*, p. 31. In 1976/7 the budgetary assistance was Rs34 billion.

14. *Le Canard Enchaîné*, 21 January 1976. The extract shows a statement from Union de Banques Suisses.

15. See *Iran Almanac, Echo of Iran*, Tehran, 1977, Index.

16. Marvin Zonis, *The Political Elite of Iran* (Princeton, N.J. Princeton University Press, 1971), p. 49.

17. Mohammed Reza Shah Pahlavi, *Mission*, p. 197.

18. Zonis, *The Political Elite*, p. 48.

19. Pars New Agency daily bulletin, 20 July 1977. An indication of the Shah's continued large personal wealth was his donation of \$4 million towards the renovation in 1976 of a Tehran hospital taken over by the Knights of Malta. This primarily represented the price of the land.

20. Perhaps the al-Thani family of Qatar and the al-Nahayyan of Abu Dhabi are also wealthier than the Pahlavis. But such comparisons can only be very approximate.

21. *Pahlavi Foundation Statutes*, Chapter I, Article V.

22. Information supplied to the author by the Pahlavi Foundation.

23. *Iran Almanac, Echo of Iran*, 1977, p. 445.

24. PBO, *Budget, Part III*, pp. 70-1.

25. Pars News Agency daily bulletin, 20 July 1977. The same publishing company was also entrusted with reprinting 50 rare books on Iran to celebrate the 50th anniversary of the Pahlavi dynasty in 1976.

26. A substantial proportion of Iranian policemen are recruited from orphanages.

27. Mohammed Reza Shah Pahlavi, *Mission*, pp. 187-8.

28. The Minister of Information Karim-Pasha Bahadori wrote a letter in May 1977 on the author's behalf requesting assistance from Emami in supplying these details. The Foundation's view was that it took orders only from the Shah and that it was a private – not a state – institution. No help was given.

29. Based upon the experience of two foreign bankers.

30. Property holdings constitute a major problem in reaching any evaluation of the Foundation's assets. Since 1970 and through to mid-1977 property values rose in the main urban areas between 400 per cent and 1,000 per cent. In many instances this has given inflated values. This estimate takes account of a tripling of property values but it takes no account of the Foundation's ability to influence in its favour (which it can) decisions on urban zoning or the incorporation of agricultural land for urban development.

31. *Pahlavi Foundation Statutes*, Chapter V, Article IX. Also the Ashraf Pahlavi Foundation into which Princess Ashraf claimed to have placed all her wealth was entitled to carry out commercial ventures.

32. Behbehanian acted as a deputy Court Minister, and appears to have had particular responsibility for the Shah's financial affairs in Europe.

33. Bank Omran annual report, 1976/7.

34. The bank was also linked to Omran Construction, involved in a \$500 million project for middle- and upper-income units in a Tehran suburb to be called Levittshahr. See *MidEast Markets*, 9 May 1977 and 4 July 1977.

35. The Ashraf Pahlavi Foundation was also involved in property development. In early 1976 a fifty/fifty venture was formed with the Italian state concern, Condotti d'Acqua, to build luxury high-rise apartments near Vanak in Tehran.

36. *Kayhan International*, 20 April 1977.

37. Information supplied to the author by a former sympathiser of General Bakhtiar. There is no independent confirmation for this unusual SAVAK property ownership other than General Nasser's presence on the board of the development

company, which itself is only explained by the latter facts.

38. Based on information supplied by a Pahlavi Foundation official.

39. Bimeh Melli refuses to discuss details of any of its activities. This information was supplied by other insurance companies operating in Iran.

40. IDRO annual report, 1975.

41. The Foundation was not directly involved in running the casinos but used a group of foreign businessmen with South African and British connections allegedly because they were not tainted by involvement with big crime.

42. This information is based extensively on a lengthy article in the *New York Times*, 26 September 1976.

43. Ibid.

44. *Washington Post*, 10 May 1977. This cites the case of the American university endowed with an Aryamehr chair of management studies worth \$1 million.

45. Bank Omran employed a number of advisers from this bank in which it now has a 5 per cent stake.

46. The proceedings of a bribery trial at the Old Bailey, London, concerning arms sales to Iran, produced the following comment by a witness: 'Sir Shapoor Reporter told me that the Shah had set up the Pahlavi Fund to receive bribes which otherwise would have found their way to officials.' See *Financial Times*, 17 December 1977.

47. Based on information supplied to the author by a company with a Foundation shareholding.

48. Based on information supplied by a former B.I. Goodrich executive. See also *Kayhan International*, 7 July 1976. In other instances the regulations on limits to foreign shareholding are waived. In the Ashraf Pahlavi property venture (cited in note 35) the foreign shareholding was well above the 35 per cent maximum which applied to partnerships involving high technology.

49. Based on information supplied by the Mercantile Bank of Iran and Holland, a partner along with I. I. Ierstadt in the venture.

50. Based on information supplied by Krupp. Montex had a Rs12 million capital in which the Foundation held 35 per cent.

51. PBO, *Budget*, Part III, p. 34.

52. Zonis, *The Political Elite*, p. 24.

53. Based on information supplied to the author by a senior civil servant. There is no firm proof of this, however.

54. Written by Siavash Danesh, public relations director of the Foundation and assistant to Lmami. The Foundation apparently considered publishing a booklet on its activities but had second thoughts on its value and content.

55. *Le Canard Enchaîné*, 21 January 1976.

56. Based on comments by those bankers who have had dealings with the Foundation.

57. Comment by a person involved in the abortive Montex venture.



# 10 INFLUENCE OF THE MILITARY

I know many people say the Shah wants to have troops to hold a big parade once a year. But you see every day proof that an unprepared country is almost a dead duck. That is not going to happen to us.<sup>1</sup>

More than any other shah, Mohammed Reza Pahlavi lavished attention on the armed forces. With some justification he could claim to have been one of the few Iranian rulers to have appreciated the need for a strong and credible defence force. The Iranian armed forces, as under most authoritarian régimes, were called upon to play the dual role of guarantors of national sovereignty and guarantors of the ruler's power. Mohammed Reza Shah saw no distinction between these roles but there was an essential duality, and one role existed at the expense of the other.

The armed forces were the keystone of the Great Iranian Civilisation. Military strength was to be both a manifestation, and guarantee, of economic strength and national well-being. The Shah had what can only be called a Gaullist view of Iranian 'gloire' and independence: Iran's armed forces were to reflect the country's standing in the world.<sup>2</sup>

Defence and the armed forces occupied the largest portion of the Shah's time. Not content with being the mere titular Commander-in-Chief, he was in active control, usually direct personal control, even down to monitoring the appointment of middle-ranking officers. They were *his* soldiers as much as Iran's. New recruits went through a thorough king-and-country propaganda course and the whole of the armed forces' credo had been modelled around the slogan 'God, Shah, Fatherland' (Khoda, Shah, Miham). This was repeated every morning in barracks throughout the country. The Shah once confided to an interviewer: 'In this country, if the king is not the Commander-in-Chief of the armed forces, anything can happen.'<sup>3</sup> In a régime that could not afford to trust its own people, this was a logical precaution.

Although Mohammed Reza Shah attended Tehran Military College, he did not have the military background of his father. Yet he had a self-confessed fascination for military affairs.<sup>4</sup> He enjoyed the gadgetry of modern warfare and always impressed his visitors with his knowledge of weaponry.<sup>5</sup> His keen military interest meant that throughout his reign defence expenditure was never below 23 per cent of the general budget. During the fifties the proportion was much higher, and

frequently topped 35 per cent.<sup>6</sup>

### *External Threats*

All Iranians are afraid of foreign attack. The Shah's sense of insecurity differs only in degree from that of the rest of his fellow countrymen. No matter what the régime in Iran, there are seven prime factors in determining a defence policy for the 1980s:

- (1) the location of Iran in an area of major international strategic interest that provides over 70 per cent of non-Communist crude oil exports;
- (2) the sharing of a 2,000 kilometre border with the Soviet Union which both historically and recently has sought a pliant pro-Soviet Iran;
- (3) the state of belligerence between the Arab countries and Israel that has led to four wars since 1947, each more lethal than the last;
- (4) the potentially precarious nature of Pakistan's relations with India that has witnessed three wars since 1947;
- (5) the uncertain alignment of landlocked Afghanistan on the Iranian eastern flank;
- (6) the recent phenomenon of centralised authority in Iran that has still left regional autonomy a potentially divisive issue. Since 1946 there have been challenges to central authority, abetted from outside, through autonomy movements in Azerbaijan, Baluchistan and Kurdistan, while the oil-rich southern province of Khuzestan with its large Arabic-speaking population is still regarded by some Arab states as Arabestan (Syrian and Iraqi maps mark it as such);
- (7) the need for stability in the Gulf to secure the free flow of Iran's vital oil exports, which involves balancing the emergent power of conservative Saudi Arabia with the radicalism of the Baathists in Iraq.

The Shah's insecurity and ambition were profoundly influenced by the withdrawal of British forces from the Gulf, and the ending, on 1 December 1971, of the treaties of protection that bound Britain to defend the Trucial Sheikdoms. British forces, stationed in Bahrain and Sharjah, propped up the conservative rule of the Gulf Sheikdoms and provided an effective insulation against the spread of any radical ideology. The British presence was also the central guarantee of the protection of shipping, especially oil tankers, in the waters of the Gulf. Britain had both naval frigates and minelayers as well as reconnaissance

and strike aircraft.<sup>7</sup>

While this British presence was a useful stabiliser it nevertheless excluded Iran from playing a regional role of real significance. Equally important, British and Iranian interests did not always coincide. Britain, for instance, was pledged to support the independence and sovereignty of Bahrain to which Iran laid historic claim. The British military presence on the island helped to thwart this Iranian claim. The finding by a special United Nations mission in May 1970 that the majority of Bahrainis favoured independence was a bitter blow to Iranian pride.<sup>8</sup>

In 1968 the British decision to phase out its military role in the Gulf gave Iran the chance of becoming a serious regional power – if not *the* regional power. The changing strategic position of oil made this all the more important. By the late sixties the Iranian economy was largely dependent upon oil revenues. Unlike the other major regional oil producers, Iraq and Saudi Arabia, Iran had (and still has) no capacity for a strategic switch of crude exports via overland pipelines.<sup>9</sup> Iranian oil has to travel in tankers which must pass through the Straits of Hormuz, only 47 kilometres wide at their narrowest point. This is Iran's jugular vein, and with the departure of the British the Shah was determined that no one should press on it.

The Shah made this apparent with almost indecent haste. On the very eve of British withdrawal, Iranian special forces occupied three small islands near the Straits of Hormuz – Abu Musa and the Greater and Lesser Tunbs, belonging respectively to Sharjah and Ras al-Khaimah. A charade of historic claim, strategic necessity and regional stability was used to justify the move but in fact the Shah was merely demonstrating Iranian power in the Gulf, to say nothing of mollifying domestic opinion over the 'loss' of Bahrain.<sup>10</sup> The seizure contributed directly to the assassination of the Ruler of Sharjah (for acquiescing in the Iranian action) and resulted in considerable unrest in Ras al-Khaimah.<sup>11</sup> It also put Iran's larger Arab neighbours on the defensive, worrying over Iranian expansionism. However, in this act of military adventurism Iran established itself as the new policeman of the Gulf. The British government was well aware of Iranian intentions and did not disapprove of the principle. On the contrary, increased Iranian strength was part of the scenario. More importantly, the Shah enjoyed American backing for a larger regional role. Apprehensive lest British withdrawal create a power vacuum, the US encouraged the Shah's regional ambitions as the most effective check to Soviet influence in the area.

### **American Support**

American grant aid for military purchases had been a key factor in assisting the Shah's build-up of his armed forces since the mid-1950s. However, with increased oil revenues the Shah sought to phase out this dependent relationship. The Shah's American military adviser at the time linked this decision to the holding of the Persepolis ceremonies commemorating 2,500 years of monarchy:

in the fall of '71 they had their great party that could be best visualised as a debutante ball a coming out party when he [the Shah] announced to the world 'we are a developed country: we are going to stand on our own feet.' He specifically asked that we terminate all grant aid.<sup>12</sup>

Increased financial independence and the termination of US grant aid had an important consequence. Not only could the Shah now choose a wider and more sophisticated variety of equipment, but also the American arms salesmen did not have to worry about arranging credits with the Pentagon before beginning their sales pitch. Many ignored the Pentagon and came direct to Tehran so that the Pentagon had little idea of what was being co-ordinated.<sup>13</sup>

By 1972 the Shah was greedy for a whole range of sophisticated military technology. In May 1972, just prior to a visit to Tehran by President Nixon, Secretary of Defense James Schlesinger drew attention to two issues that became highly relevant four years later: the security risk of selling advanced equipment and the dangers inherent in providing equipment that required extensive technical back-up from US personnel. Schlesinger told President Nixon in writing it was unwise to sell Iran laser-guided bombs and advised against 'making a firm commitment to the Shah to sell the F-14 or the F-15 and advised against an increase in uniformed US technical personnel in Iran in order to maintain a low profile'.<sup>24</sup> This advice was ignored by Nixon with important long-term consequences. In retrospect the Nixon visit to Tehran was crucial in the Iranian arms build-up. Without the commitments given then, it is highly unlikely that the Shah would have been able to go for such a rapid and sophisticated weapons procurement programme. In subsequent testimony on the visit, the then chief of the US military mission in Tehran, Major-General Ellis Williamson, said, 'After the President's visit I became concerned because it was obvious that Iran expected to get from the US everything it wanted short of nuclear

Since Iran was so clearly in the market to buy, it was a classic case of 'if we don't sell, someone else will.' This increased both the pressure on the Pentagon and White House to approve sales and, at the other end, the incentives to Iranian officials to ensure that contracts were awarded. 'The American promoters were bribing key people in an enormous way and spending millions on bribes with top level people,' a British arms salesman commented.<sup>20</sup> The pressure was such that on occasions major decisions were taken without proper forethought on either side. In evidence to the Senate Committee on Multi-national Corporations, Senator Church said: 'We have strong evidence that the F-14 was strongly pushed onto the Iranian Government long before our own Government made any decision that it should be made available for foreign sale.'<sup>21</sup> At stake was a \$28 million commission on a \$2.2 billion contract.

If the Shah had any doubts about the scale of procurement and Iran's ability to absorb it, these were dispelled by three events – the Arab-Israeli war in October 1973, the quadrupling of oil prices, and the explosion of a nuclear device by India. The Arab-Israeli war made clear the massively high rates of attrition in a modern war; the new oil money enabled the Shah to purchase the new weaponry; while the Indian nuclear explosion was a sharp reminder of the big gap that still separated Iran from military powers with advanced technology.<sup>22</sup>

Defence spending therefore accelerated sharply in 1974, giving the deceptive impression to the outside world that this was exclusively the result of the oil price rise (see Table 7). In fact this was only one of a series of catalytic elements. Rather than seek to control or co-ordinate the flow of arms to Iran, the US government was happy to let events follow their own course. There was no review of American arms sales to Iran until 1976, by which time the Iranian armed forces were slowly beginning to sort themselves out.<sup>23</sup> From 1974 to the end of 1976 there was incredible confusion, so much so that the US Department of Defense was obliged to send its own representative to Tehran in September 1975 to sort out 'the chaos and problems that had emerged in program management and implementation'.<sup>24</sup> Not the least of Iran's problems was that it had been foisted with equipment that the salesmen had not fully explained.<sup>25</sup> Although Iran now possessed a splendid modern arsenal it did not know how to use it. The Shah and his advisers consistently overestimated the technical capacity of the armed forces.

Table 8: Defence Expenditure (million dollars)

|                                      | 1974/5 | 1975/6 | 1976/7 | 1977/8 | 1978/9* |
|--------------------------------------|--------|--------|--------|--------|---------|
| 1. Supply, production and renovation | 3,500  | 5,192  | 4,834  | 4,829  | 6,034   |
| 2. Personnel                         | 812    | 1,095  | 1,877  | 1,858  | 2,546   |
| 3. Maintenance and operations        | 493    | 613    | 764    | 504    | 709     |
| 4. Special operations                | 653    | 636    | 658    | 681    | 643     |
| 5. Other                             | 43     | 64     | 64     | 9      | 4       |
| Total                                | 5,501  | 7,600  | 8,197  | 7,881  | 9,935   |
| % General Budget                     | 24.2   | 29.2   | 27.6   | 24.4   | 23.3    |
| % Increase                           | +189   | +38    | +7.7   | -2.8   | +27.3   |

## Notes

- The exchange rate has been calculated on the following basis —  
\$1 = Rs67.50 for 1974/5; \$1 = Rs69.40 for 1975/6 and 1976/7;  
\$1 = Rs71.20 for 1977/8; \$1 = Rs70.50 for 1978/9.
- These figures are taken from the General Budget allocation under the heading 'Defence'.
- These figures do not include allocations for Defence Industries (the Military Industries Organisation which received a separate annual allocation equivalent to \$106 million in 1976/7).
- Additional military expenditure is contained in a separate heading in the General Budget 'Government constructions and establishments'. A small amount is directly itemised as for military construction (\$33 million in 1976/7); but the bulk is contained in an item 'construction of other buildings of state'. This is believed to refer to military bases, housing and general infrastructure almost exclusively. In the three years through to 1976/7 the allocations amounted to \$3.2 billion.

\* Projected,

Source. Plan and Budget Organisation.

## Credibility and Effectiveness

A comprehensive defence strategy for Iran involves a complex series of measures because the country is so large, its centres of population so spread out and poorly linked, and because it borders so many countries with differing social systems at differing stages of development all with widely varied terrain. Iran has 5,170 kilometres of land frontier with five different states, and 2,510 kilometres of coast covering three wholly different waters — the Caspian, the Gulf and the Indian Ocean/Sea of Oman. Iranian territorial waters are contiguous with nine states.<sup>26</sup>

The problem is comparable to the strategic defence of NATO but without the experience, technological backing or cohesiveness of an alliance.

Until the Shah's overthrow Iran was part of the CENTO alliance, which included its regional neighbours Pakistan and Turkey plus Britain and the US. The Shah, however, put no great faith in its permanence or, more importantly, its efficacy. Unlike its predecessor the Baghdad Pact, CENTO managed to survive so long largely because it was innocuous. The Shah believed that the most effective policy was one based on the Gaullist principle of *tous azimuts* everyone is potentially hostile.<sup>27</sup>

Such a philosophy had to be balanced with Iran's own financial and human resources. Iran cannot for instance seek parity with all its neighbours, especially the Soviet Union. Yet the Shah sought as far as possible to do this. As a result his critics argued that he had over-armed Iran as a purely regional power but left it far too weak, especially without a nuclear option, to match up to the Soviet Union. Commenting on this, Shahram Chubin of the Iranian Institute for International Political and Economic Studies says.

Iran's strategy is to create a trip-wire which would first deter and then delay an aggressor while diplomacy and friendly states come to its assistance. The Shah has likened the armed forces in this respect to a 'lock on the door'.<sup>28</sup>

The experience of the 1973 Arab-Israeli war and the thrust of more recent Soviet defence strategy highlight the lightning strike as the most effective option. This allows the aggressor to present international opinion with a *fait accompli* before friendly states can be mobilised. In this regard the massive Iranian arms build-up may have been mere provocation to the Soviets and quite incapable of deterring them. This was where the American attitude was crucial to Iranian credibility. The Shah did not depend exclusively upon America for arms supplies, but over the years America has been the leading supplier.<sup>29</sup> In the four-year period up to the end of 1976 American arms sales had reached \$10 billion.<sup>30</sup> The official justification for such a heavy flow of weaponry to Iran was the inherent threat posed by the Soviet Union either through direct aggression or through indirect Soviet pressure.<sup>31</sup> Yet the specific nature of this threat has always been blurred in official American and Iranian comment. Is it a lightning thrust from the Caspian down to the oilfields of Khuzestan? Is it a similar thrust down through Meshed to the southern part of the Gulf to threaten Western oil supplies? Is it complete Soviet domination of Afghanistan? Or is it subversion that would lead to the establishment of a pro-Soviet and

anti-American régime in Iran? This last scenario scared the Shah and the US most and was thought the most likely. It was also the hardest to combat.

It was this fear of Soviet subversion that made it difficult for the Shah to entertain anything but correct relations with the Soviet Union. He bought Soviet military equipment; but never convincingly sought to play the Soviet Union off against the US. The Shah was too deeply committed to the West to be able to do this.<sup>32</sup>

Soviet actions towards Iran since the beginning of the Cold War have on occasions been both aggressive and subversive. However since the late sixties when Iran began to bolster its armed forces and move closer towards the US, it has been difficult to separate cause and effect. For instance Soviet arming of Iraq and the subsequent Treaty of Friendship in April 1972 could be interpreted as a response to American armament of Iran and the involvement of Israel, with Iranian approval, in the Kurdish rebellion. Soviet countenancing in the early seventies of urban guerrilla training in Eastern Europe and Cuba for Iranian dissidents, and the beaming of hostile radio broadcasts to Iran from Bulgaria, could be interpreted again as a response to Iran's more clear-cut anti-Soviet stance.<sup>33</sup> One theory, canvassed by Iranian intelligence, was that the assassination of three Americans installing the electronic eavesdropping system which enabled indirect increased American surveillance of the southern Soviet Union represented Soviet disapproval of this project.<sup>34</sup>

Although the Shah may have provoked the Soviets, this still does not alter his or the American perception of the Soviet threat. Prior to the Nixon administration, American governments had been committed to the survival of Mohammed Reza Shah as a strong pro-Western monarch. A bilateral treaty was signed in 1959 stipulating joint consultations in the event of aggression by a Communist or Communist-inspired country. US officials now say this was a fairly standard treaty for an important US ally of the time, and play down commitments of military support. It nevertheless indicated the nature of American policy: Iran was to be an American sphere of influence.<sup>35</sup>

Under the Nixon administration the US became committed, or rather entangled, in a way it was not before. By permitting the Iranian purchase of sophisticated equipment in unprecedented quantities, the US committed itself to make this hardware operational. This meant an exposed profile in the form of extensive military and civilian technical and advisory personnel in Iran to compensate for the serious shortage of skilled manpower. By 1976 it was reckoned that the majority of



the 24,000 Americans in Iran were defence and defence-related. Before the revolution this number had been expected to reach between 50,000 and 60,000 by 1980, largely as a result of purchases of arms from the US.<sup>36</sup> Such is Iranian dependence on expatriate personnel that it will be unable to fight on a day-to-day basis without American support through to the late 1980s.<sup>37</sup> Although this bore out Schlesinger's forebodings back in 1972, in strictly Iranian terms this American military presence provided a deterrent of a kind it never previously possessed. The prospect of American personnel being involved, even indirectly, in combat gave the US a strong incentive to ensure that such a situation never occurred. America had to ensure the Shah was seen to be strong against potential aggression or in facing up to diplomatic pressure. For instance, in early January 1975, Iran and Iraq were on the verge of a major escalation of border fighting during the Kurdish rebellion. Iran pulled back in part because of American assessments that she would receive a bloody nose. This would have weakened Iran's image and the image of the US in relation to Iran.<sup>38</sup>

The credibility of the Iranian military under the Shah was therefore only achieved at the expense of Iranian independence. Moreover, in the view of American defence experts the dependence was likely to grow if the equipment became more sophisticated. In relation to the F-14 Iran is like a Texan auto dealer dependent upon Detroit.<sup>39</sup> Not surprisingly, Iran's new rulers have sought to get rid of these planes.

Attempts to limit this heavy dependence were initiated by licensing arrangements for local manufacture and assembly. But when the country's main motor company, Irannational, starts assembling cars in 1967 and ten years later can only manufacture the unsophisticated 55 per cent of the parts, the difficulties in obtaining anything but notional independence are apparent. Independence is further undermined by the distance that separates Iran from its major suppliers. This makes Iran vulnerable in a war where questions of overflying rights and availability of spares and transport capacity are key issues. The experience of Israel in 1973, whose fighting performance would almost certainly have been different without the massive US airlift, had not been lost on the Shah. Iran since 1973 set out to acquire the most comprehensive airlift capacity in the Middle East, in addition to a heavy stockpiling of spares.<sup>40</sup> This however is a costly solution.

Although the Shah's military build-up could not easily sustain a conventional war, its main function was as a foreign policy option. Increased military potential provided increased foreign policy flexibility and credibility, especially when combined with oil wealth diplomacy.

In this sphere it has not mattered that Iran's military effectiveness is an unknown quantity. Increased military strength and oil wealth were used to good effect in bolstering Pakistan, and in improving relations with more powerful Arab states like Egypt and Syria. It also enabled Iran to maintain an independent approach to Israel.<sup>41</sup> During the 1973 war, Iranian naval vessels escorted Israeli tankers down the Gulf at the same time as Iranian transporters helped to airlift Saudi troops to Syria and permitted limited Soviet military overflights to Iranian territory *en route* for Iraq and Syria.<sup>42</sup> Since the 1975 Sinai disengagement agreement between Egypt and Israel, Iran had been providing 90 per cent of Israel's oil needs.<sup>43</sup> Increased regional strength also enabled the Shah to lessen dependence upon the politically hazardous Iranian-Israeli-South African axis which dated back to the Nasser era.

### Testing the Military Machine in Oman

The most obvious demonstration of Iran's regional strength has been its intervention in Oman to assist Sultan Qaboos in suppressing the rebellion in Dhofar. The Shah was invited to despatch troops to Oman by Sultan Qaboos in 1972. The prime motive for accepting the request was not the publicised danger of a radical régime across the waters of the Gulf but to demonstrate unequivocally that Iran was to be *the* regional power. A secondary motive was the need to provide practical training for the military.

In some respects this was the most remarkable aspect of the intervention. The Shah was able to utilise the excuse of a Communist-supported liberation movement undermining a neighbouring friendly Arab régime as a means of giving Iranian troops their first real taste of counter-insurgency operations. As one Arab commentator pointed out, 'Had Dhofar not existed, Iran would have invented it.'<sup>44</sup> Apart from Oman, the Iranian experience of battle conditions or counter-insurgency has been limited. Iranian tanks and artillery were used in sporadic border clashes with Iraq up until the March 1975 treaty of friendship between the two countries; and Iranian artillery units plus logistical back-up operated inside Iraqi Kurdistan in support of the Kurdish rebels in the latter stages of the rebellion. Iranian helicopter units have also taken part in cross-border co-operation with Pakistan to combat Baluch separatism. But such experience does not really test the military machine.

The function of the Iranian troops in Oman was to increase the size of the Sultan's Armed Forces (SAF) and to provide logistical support, particularly making good the Omani shortfall in helicopter capacity.

In 1971 SAF strength was under 10,000 men, including expatriate officers and NCOs and seconded British personnel. Although the total strength of the Dhofari guerrillas was never more than 2,000, with perhaps 1,000 inside Oman at any one time, SAF strength was inadequate even for a holding operation. The advent of Iranian forces allowed the SAF to release troops for duty outside Dhofar province and to go on the offensive inside Dhofar. This was the essential value and importance of Iranian forces. At the height of the fighting, from September 1974 to March 1975, there were some 4,500 Iranians in two battalion strength; roughly a quarter of all the forces deployed in Dhofar.

The Iranians can be credited with two achievements. An Iranian battle group in December 1973 opened up a 50 kilometre stretch of road linking the Dhofari coastal capital of Salalah with the inland air base of Thumrait. The following December, Iranian forces established a defensive line from the coastal village of Rakhyut inland across the principal guerrilla infiltration trails. This line, the 'Damavand line', effectively isolated those rebel groups inside Dhofar from their reinforcements infiltrating across the border from South Yemen. However, too much should not be read into these actions. More than anything else they were the inevitable consequences of SAF's numerical superiority, increased skill in the SAF command and large-scale desertions from the guerrilla side rallying to Sultan Qaboos. In the opinion of the British military involved in the fighting, the Iranian forces displayed several important weaknesses. Because the Iranian troops were mainly composed from élite units of the Special Forces these weaknesses concern Iran's best-trained soldiers. The first shortcoming was the rigid nature of the Iranian command structure and the seemingly inseparable gulf between officers and men, which rendered the communication of all but the simplest of orders a complex and unwieldy operation. In guerrilla operations textbook plans rarely materialise and successful action depends upon initiative. When the whole command structure mitigates against initiative by junior officers and NCOs, this is a serious disadvantage.

A second shortcoming concerned the ethos and training of the Iranian troops. They were organised on the American principle of lavish back-up and PX-type facilities -- fresh food, dairy products and water were flown in each day from Shiraz. This tended to reduce combat morale. Third, the Iranian forces suffered seriously from the Shah's determination to use Dhofar as a training exercise. To gain the maximum advantage, troops were rotated on a three-month basis. This dis-

couraged the development of proper experience since units were withdrawn too soon. The rota system also led to unnecessarily high casualties from basic failures such as inability to read map references, or helicopter landings on silhouetted ridges or the laying of mines without charts. (At one stage a senior British officer was obliged to go to Tehran and bring back the Iranian responsible for a minefield since he had left no charts.)

The Iranians never released their casualty figures — not even to the SAF general command. SAF officers reckoned that the Iranian casualty rate was about three times that of SAF. From January 1971 to the end of December 1976 (eight months after the formal cease-fire) SAF losses totalled 188 killed and 574 wounded. Thus, even on a three to one ratio on these figures Iranian casualties were not excessive. However, this was a small war, tucked away in a remote corner of the Arabian Peninsular, with casualty levels that raised no questions in Tehran and which presented the Shah more than a fair chance of being on the winning side. The Iranian presence was essential to the war effort but the Iranian performance gave no indication of the effectiveness of the Shah's military machine. If anything, it exposed the inherent weakness of a bureaucratic command structure that stifled initiative. Some argue that had the Iranians been alone they would have been as muscle-bound as the Americans in Vietnam and would probably have fared little better than Nasser's ill-fated venture into the Yemen.

Despite these negative elements the Shah could claim to be satisfied with the impact on the region of Iranian intervention. Governments like Saudi Arabia and Iraq expressed varying degrees of unease over the intervention. But the Shah was able to ride this out. He was able also to withdraw the bulk of Iranian troops in January 1977 with comparatively little fuss.<sup>45</sup>

### **Political Role**

In political terms the possession of a large, bureaucratic and unwieldy military establishment was not necessarily a disadvantage. Indeed the Shah regarded this as an advantage and encouraged such a structure. It was a function of the dual role of the military in Iran. Since they were also the ultimate guarantors of the throne, a small but cohesive military would present a greater threat to the régime. A large military establishment enabled the Shah to fragment individual power bases, making it much more difficult to dissident elements to mount a cohesive opposition.

The constant concern with loyalty led the Shah into keeping the three services well apart. They were rarely linked except through the person of the Shah. Loyalty was more rewarded than brilliance, and royal relatives were placed in strategic posts. The Shah's brother-in-law, General Mohammed Khatemi, commanded the Air Force until his death in a hang glider accident in 1975.<sup>46</sup> Khatemi was the man who was expected to rally the loyalty of the armed forces in the event of the Shah's death: and his own death left the position vacant. An important figure in the Navy before the revolution, earmarked for future prominence, was Captain Prince Shafik, a son of Princess Ashraf.<sup>47</sup>

In his dealings with the military, the Shah tended to treat separately with commanders, and the command structures were so arranged that it was difficult for groups to gather without the notice of security agents. The army's crack units, and the best armed, were the Imperial Guard, whose task was to protect the monarch. The Imperial Guard were among the first units to learn to use the Chieftain tank. The Imperial Guard was to prove the only unit to attempt to resist the uprising in February 1979 that established the Republic. Troop and aircraft dispositions reinforced the impression that the Shah's defence policy was intimately linked with his own protection. For instance, there was an unnecessarily high concentration of armour in and around Tehran which could only be explained in this way (although a secondary factor is more mundane — officers prefer to be near the capital). The same applied to aircraft. The heavy concentration of aircraft at Mehrabad airport created serious problems for civil traffic using this, the capital's only international airport.

By virtue of their role as defenders of the throne — not of the realm — the officer corps became a privileged class. Their pay and fringe benefits put NATO to shame, including the provision of villas, domestic personnel, low taxes on luxury goods and holiday compounds. Senior ranks were pensioned off on full pay and frequently were drafted into the boards of state companies and institutions.

The Shah's military were governed by their own rules and regulations and were kept apart from the rest of society. No one below the rank of colonel could visit a foreigner, especially a military attaché, without permission. This was rarely forthcoming. Even generals rarely showed up at diplomatic receptions.<sup>48</sup> This separation was reinforced by a tendency for the officers to marry within the military establishment, which was formed mostly from the ranks of middle-class families of modest origins. Unlike the Turkish armed forces, where poor but ambitious youths join as a means of self-advancement, the social

structure of the Iranian officer class was less varied – especially since the purges in the late 1950s following the overthrow of Mossadegh. The style and pace of the military build-up had also created opportunity for monumental corruption.

In February 1976 the head of the Navy, Rear Admiral Ramzi Abbas Ata'i, was found guilty with ten other officers on unspecified charges of embezzlement and fined \$3.7 million. This is believed to have been the amount Ata'i, a man of modest means, had seized from his various bank accounts.<sup>49</sup> The Shah was forced to act in this instance because of the demoralising effect corruption was known to have produced within the Navy. Among the things Ata'i is alleged to have permitted was the use of Iranian vessels to transport duty-free goods, including cars, from Dubai to Iran.<sup>50</sup> Corruption had also extended down to extensive draft evasion. In June 1977 a military tribunal sentenced a group of officers and NCOs who had been operating 62 draft evasion networks.<sup>51</sup> Such activities may not have detracted from the loyalty of the armed forces to the Shah: but they certainly did not contribute to operational efficiency.

Finally it should be stressed that the military, as seen in the previous chapter, were deeply involved in the Shah's system of parallel government. They provided many of the key personnel of SAVAK and the Shah's own Imperial Inspectorate and were responsible for a wide area of 'justice'. They are also involved in more benevolent activities like the supervision of the literacy corps. The literacy corps was a system of using high school and university graduates eligible for national service to carry out this service as teachers in rural areas. This was the central element in the campaign to eradicate rural poverty and illiteracy.

### **Value for Money**

Under the Shah Iran spent four times as much *per capita* on defence as Turkey, yet the numerical strength of the latter's armed forces was over 30 per cent less.<sup>52</sup> Turkey is a NATO member and comes under the NATO umbrella, so the comparison between these two countries with similar-sized populations can be misleading. Yet the comparison does serve to pose the question of whether Iran was getting value for money.

Since 1973 the military build-up has been at the expense of the civilian sector in three main areas – the allocation of funds, competition for scarce human and material resources, and access to technology. Of these by far the most significant has been the expansion of the *numerical strength of the armed forces on the scarce manpower market*. Between 1972 and 1976 the Iranian armed forces expanded from

191,000 to 300,000. This was an annual increase of 11 per cent, only surpassed in the region by Syria, whose numerical strength expanded directly as a result of the 1973 Arab-Israeli war.<sup>53</sup> In the case of Iran this was not merely an increase of foot-soldiers but a response to the demands of the new sophisticated equipment.

This expansion of uniformed personnel was paralleled by an increase in the number of civilian personnel in desk jobs and technical roles, and more importantly construction workers for new bases, housing, etc. The military became the biggest single client for skilled and semi-skilled labour. It also became the prime importer of foreign skilled and technical personnel. Almost half the foreign personnel employed in Iran by 1977 were estimated to be defence or defence-related.<sup>54</sup> There appears to have been no attempt to co-ordinate the manpower needs of the military sector with those of the civilian in the Plan Organisation. This created tremendous competition for scarce manpower and invariably the military won out.

The fact that a sizeable part of the new military investment was capital-intense made little difference in the short term because it merely exacerbated competition for such skills as computer programmers or mechanics. For instance, supporting the operation of 80 F-14s requires 6,500 personnel, of which 2,650 will need special skills.<sup>55</sup> For the more advanced F-16 fighter, of which Iran wanted to buy 300, 218 technicians would be needed for each 18 aircraft.<sup>56</sup>

These shortages were expected to get worse by the early 1980s as Iran took delivery of the bulk of the sophisticated equipment first considered for purchase in 1973-5. The Iranian Air Force (IIAF) would probably have had to increase its personnel by 50 per cent by 1981 to operate all the systems. In 1976 there was a shortfall of 7,000 from a technical manpower requirement of 20,000. By 1981 Iran could have been short of some 10,000 technical personnel just for the IIAF, the most prestigious of the service arms.<sup>57</sup>

The price of obtaining such personnel was very high. Either the military offered wages and conditions that bettered the civilian sector — competition that itself boosts wage costs — or skills were imported. This made the software element in Iran's defence purchases extremely expensive. Including training, technical maintenance, language schooling plus spare parts, testing, etc., software has devoured 50 per cent of the defence expenditure since 1973.<sup>58</sup> The priority accorded the military offered wages and conditions that bettered the civilian sector — sector. The Shah's emphasis on indigenous armaments production has turned the defence industries into the most technically advanced of

the economy outside oil and petrochemicals. In this respect Iran was attempting to cope not with low or intermediate technology but was making a quantum leap direct to the most advanced technology, with only the slimmest base. For instance, Iran was seeking to establish an advanced electronics industry in Shiraz to assemble and manufacture sophisticated weapons systems. Agreement had already been reached with the British Aircraft Corporation for partial manufacture of the Rapier missile system; while agreement in principle had been reached upon co-production of the TOW anti-tank missile and the Maverick missile.<sup>59</sup> Despite scaling down the original project, Iran was pressing ahead with a major ordinance factory complex at Isfahan producing certain types of guns (Bofors) and advanced automatic weapons (in association with the Czech company Omnipol) plus standard artillery munitions. The War Ministry also intended to incorporate a degree of local manufacture into the Chieftain tank and tank transporters via co-operation with British Leyland and Rolls Royce.<sup>60</sup> More revealing of the Shah's military technology ambitions was a highly secret facility, at Pachin, south-east of Tehran, geared to the testing and production of advanced warheads and rocket motors. Some 80 West German chemists, explosive experts and rocket engineers were employed in the complex. Suggestions that Iran was seeking to develop an indigenous medium-range missile capacity are impossible to confirm – or that the Pachin research was linked to the work of German rocket scientists operating in Zaire. However, it is known that the Shah wanted to have a missile to balance the Soviet-made Scud possessed by neighbouring Iraq.<sup>61</sup> There is also a strong belief that the Shah's determination to build up nuclear technology in Iran was linked to an eventual hope of possessing nuclear weapons. The Shah sounded out the French on their view of Iran sharing in the nuclear reprocessing facilities pledged to Pakistan and had apparently been given an understanding by former Pakistani Premier Bhutto that Pakistan would consider favourably such an arrangement if the French approved.<sup>62</sup> The Iranian Navy meanwhile, since early 1977, had been toying with the idea of acquiring nuclear submarines.<sup>63</sup> The desire for independence through broad-based indigenous production is wholly understandable. Yet so long as the economy remained relatively backward there were considerable dangers in this approach. By going straight for advanced systems, Iran risked obtaining a once-and-for-all transfer of technology from which it would be much harder to generate a large spin-off. The technology was merely being granted and stood in isolation. The risks of Iran ending up producing the non-essential items, with only the appearance of production



capacity, were very high.

Moreover the real cost of local production had only been measured against the notional concept of independence. A naval dockyard at Bandar Abbas became operational in late 1977, giving the Iranian Navy the ability to refit and repair its own frigates and destroyers. But a complete refit would take three years, against 18 months in Britain, and cost twice as much.<sup>64</sup> This is the cost of independence. The sophistication of the systems ordered frequently made it difficult – and will continue to make it difficult – to monitor overcharging. Between December 1973 and September 1974 the Shah ordered six Spruance class destroyers at a price per vessel of \$234 million. By February 1976 the price had risen to \$338 million each, and the order had to be cut to four.<sup>65</sup> At best now Iran will order two.

This was for an item which was of marginal value to Iran.<sup>66</sup> The destroyer, one of the most advanced vessels in the US Navy's inventory, which it was itself finding difficult to handle, was designed for an ocean-going role: in Iran's case policing the Indian Ocean. Although it fitted the strategic plan of the Chah Bahar base, no one gave thought to manning. Training of personnel was meant to have started in July 1975 with 16 people per week. By March 1976 only 23 had begun training.<sup>67</sup> This was because it proved impossible to find the personnel to train. The Spruance purchase, like so many other items, was predicated on Iran's ability to buy and took no account of the human element.

However, the most puzzling and the most damaging element in the Shah's defence philosophy was his premium on speed. The dangers of trying to build up the military in a hurry were self-evident. Yet he insisted on this course, delivering himself into the hands of the seller. The pace of delivery contained a large built-in wastage, and hindered efficient use. For instance, pilots who had no sooner finished training on the Phantom F-4 aircraft were drafted on to the more advanced F-14 programme – sacrificing barely complete mastery of one aircraft for incomplete mastery of another.<sup>68</sup>

Because of the taboo surrounding military purchases or performance, this tremendous wastage was not properly challenged. Nor was there any debate over whether Iran would be better served by opting for more readily attainable objectives in the civilian sector. The most candid comment was contained in a paper prepared by the Iranian Institute for International Political and Economic Studies.

The flood of weapons, for example tanks (or helicopters), is likely to

result in remarkable waste in two respects. First, in stretching the capacity of existing trained crews and decreasing their efficiency, and/or in the inability to maintain and operate these vehicles leading to warehousing, deterioration, or falling into disrepair. It may indeed be the Government's assumption, underlying the large number of weapons ordered, that many will be used up, or crashed in trial and error and that this type of attrition is a natural corollary of the rapid attainment of skills.<sup>69</sup>

When the armed forces were called upon to defend the throne in 1978, they were ill prepared to cope with a large-scale internal security operation. The Oman experience, which had involved crack units with few conscripts, had exposed the weaknesses of a bureaucratic command structure that denied initiative to junior officers. There was a huge gulf between officers and men; conscripts were unwilling to fight and discipline was poor.

## Notes

1. Mohammed Reza Shah in interview with *Newsweek*, 14 October 1974.

2. The Shah has declared that defence and national independence are two 'super-principles'. See *Kayhan International*, 25 October 1976.

3. Mohammed Reza Shah in interview with *Newsweek*, 1 March 1976.

4. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1974 edition), p. 64.

5. Comment to the author by Sir Ron Ellis, chief of defence sales, Ministry of Defence (UK).

6. Julian Bharier, *Economic Development in Iran: 1900-1970* (London, Oxford University Press, 1971), p. 67.

7. *British Defence White Paper* (London, HMSO), 20 February 1969.

8. *Arab Report and Record*, 1970, p. 263.

9. The US group, Bechtel, carried out a study for the Iranian government in 1969 on the routing of a pipe through to the Turkish coast at Iskanderum; but this project was excluded as being too costly. Also the Shah distrusted being dependent upon a pipe that crosses another country.

10. John Duke Anthony, *Arab States of the Lower Gulf* (Washington, The Middle East Institute, 1975), pp. 26-8.

11. *Ibid.*, pp. 200-2.

12. Committee on Multi-national Corporations, Committee on Foreign Relations, US Senate, September 1976.

13. *Ibid.* See comments by Senator Church.

14. *Ibid.*

15. *Ibid.*

16. Based on information supplied to the author by senior executives involved in the Chah Bahar project, and expatriate defence officials in Tehran. US use of Chah Bahar was in reply to the Soviet build-up of Berbera, Somalia. When the

project was reviewed in 1976 a combination of new US strategic considerations, plus altered American sensitivities over their profile in Iran, helped scrap the idea of nuclear submarine pens.

17. The project was known as Ibex. Also it was hinted that the potential closure of US facilities in Turkey had created stand-by radar and monitoring in Iran. See *Financial Times*, 23 November 1976; also *Guardian*, 2 January 1977.

18. Shahram Chubin, 'Implications of the military build-up in non-industrial states: the case for Iran', special paper prepared for circulation by the Institute for International Political and Economic Studies, Tehran, 1976, p. 13.

19. *Financial Times*, 2 December 1977.

20. *Financial Times*, 17 December 1977. This comment was made during court hearings of an arms bribery case in the UK.

21. Committee on Multi-nationals.

22. Mohammed Reza Shah, interview with BBC. Text *Kayhan International*, 18 December 1976.

23. The first attempt at serious review was the preparation of the report 'US military sales to Iran' (op. cit.) for the US Senate.

24. 'US military sales to Iran'. Staff report to the Subcommittee on Foreign Assistance of the Committee on Foreign Relations, US Senate, July 1976, ix.

25. Ibid. 'The services did not inform the Iranians of the full extent of the training, logistics and maintenance implications of the systems they were trying to sell.'

26. *Iran Almanac. Echo of Iran*, Tehran, 1977, p. 67.

27. Abbas Amirie (ed.), *The Persian Gulf and Indian Ocean in International Politics: a symposium* (Tehran, Institute for International Political and Economic Studies, 1975), p. 268.

28. Chubin, 'Implications', p. 6. Interestingly the US administration as far back as 1962 felt the Shah was over-arming. President Kennedy's adviser, Theodore Sorensen, said the US regarded the Iranian army as too large for border incidents and internal security but of little use in a war situation. See *Kennedy* (New York, Harper and Row, 1965), p. 268.

29. Britain is supplying Iran's main battle tanks: 792 Chieftains in a first batch whose delivery was completed in 1977 and 1,297 in a second batch delivered in three phases. The latter order was cancelled by the Bazargan government.

30. 'US military sales to Iran', p. 58. Total orders in 1973-6 amounted to \$9.85 billion. This compared with orders totalling \$11.62 billion from 1950 through to 1976. The rate of delivery does not match up to orders. For instance in 1974, orders were \$3.92 billion and deliveries were \$509 million.

31. *Financial Times*, 9 August 1976. This justification was stressed in Tehran by US Secretary of State Dr Henry Kissinger in the wake of the publication of the US Senate report, 'US military sales to Iran'.

32. The most recent Soviet purchase was \$550 million worth of equipment, which included tank transporters, APCs and SAM-7 missiles, following a visit to Moscow by Vice-War Minister General Toufanian in October 1976. The bulk of the Iranian armed forces' transport is Soviet-supplied — on a barter basis against Iranian gas.

33. These radio broadcasts were halted in early 1977 following secret negotiations that involved the return to the Soviet Union of an ex-fighter pilot who defected to Iran in a light aircraft on 23 September 1976. The Soviets were understood to have threatened to escalate hostile propaganda if the pilot was not returned. The pilot's return was an unpopular move in Iran, not least because it showed the Shah bending to Soviet pressure.

34. This theory has not been disproved. In this connection see *Guardian*, 2 January 1977.

35. Mohammed Reza Shah in an interview with *Newsweek*, 14 November 1977. The Shah interprets the treaty as a positive US obligation to provide assistance.

36. 'US military sales to Iran', viii.

37. *Ibid.*, p. 50. 'Informed US personnel believe that it is unlikely that Iran could engage in major combat operations during the next five to ten years with its current and prospective inventory i.e. purchase to date, of sophisticated weapons (as distinct from some less sophisticated ground equipment) without sustained US support.'

38. Based upon information supplied to the author by a US defence official. In the Kurdish conflict Iran also deployed the British Rapier missile which was responsible for shooting down an Iraqi TU-16. British advisers were said to have been close by during this incident.

39. 'US military sales to Iran', p. 51. The report points out that in the event of a change of regime, the US would be able to cripple the Iranian military establishment.

40. The IIAF has purchased twelve Boeing 747 jumbo jets converted for military use. The Shah sought to purchase the Galaxy giant transporter but the production lines could not be reopened.

41. The Israeli presence in Iran was at its height during the Kurdish rebellion. Israeli military assistance to Iran has been small but important. In the early stages of Iran's acquisition of the F-4, these aircraft were serviced in Israel (also some in Spain). Some equipment from the US was transhipped via Israel to Iran. The size of the Israeli presence can be gauged from the Israeli school in Tehran, which has 300 pupils. A large Israeli mission which had no formal diplomatic status but full diplomatic privileges lasted until February 1979. It then became the headquarters of the Palestine Liberation Organisation in Iran.

42. Amirie, *The Persian Gulf and Indian Ocean*, p. 277.

43. This oil was primarily supplied by the international oil companies and not NOIC. Mexico provided the remaining 10 per cent of Israel's needs.

44. *The Persian Gulf and Indian Ocean*. See comments by Riad el-Rayyes, p. 307.

45. These observations are the result of two visits to Dhofar in March and November 1976. There are no Iranian sources for this information, but it is based upon discussions with SAF officers, official SAF military briefs – in particular Military Press Brief, Dhofar, November 1976 – and an interview with Sultan Qaboos in November 1976.

46. *Kayhan International*, 14 September 1975.

47. Prince Shafik obtained the Sword of Honour at Dartmouth Naval College (UK), the highest award open to a cadet.

48. Based on information supplied to the author by foreign defence attachés in Tehran.

49. *Kayhan International*, 24 February 1976.

50. Based on information supplied to the author by an expatriate familiar with the case.

51. *Kayhan International*, 11 June 1977. Draft evasion was widespread and in some parts of the country could be accomplished with under-table payments of more than \$100.

52. International Institute for Strategic Studies (IISS), *The Military Balance, 1976-77* (London, IISS, 1976).

53. *Ibid.*

54. Based on information supplied to the author by the main embassies in Tehran. Also see 'US military sales to Iran', p. 33.

55. 'US military sales to Iran', p. 28.

56. *New York Times*, 2 November 1977.
57. 'US military sales to Iran', p. 25.
58. Chubin, 'Implications', p. 19.
59. To find technicians with the necessary qualifications to assemble just part of the Rapier missiles BAC had to look for 14-year-olds in the schools to place on special technical training. This contract was completely cancelled by the Bazargan government.
60. Tank tracks are already being made at a plant in Dorud.
61. Little was known of this facility other than that German personnel are supplied by the West German company Von Braun. The more sensitive parts of the tracked Rapier missile were assembled here.
62. Based upon information supplied to the author by an expatriate familiar with Iran's nuclear programme.
63. A contract to survey Iranian waters was awarded in October 1977. See *The Times*, 14 October 1977.
64. This £40 million facility was built by Laing in co-operation with Millbank Technical Services. British seconded naval personnel will help maintain the dock-yard.
65. *International Herald Tribune*, 6 February 1976. Also General Toufanian told the author in August 1976 that the unit cost of the Chieftain tank had risen from £295,000 to £350,000 and then stood at £450,000.
66. 'US military sales to Iran', xii.
67. *Ibid.*, p. 22.
68. *Ibid.*, p. 29.
69. Chubin, 'Implications', pp. 24-5.

and absorb cultural influences without having their own identity submerged.<sup>3</sup> The most striking instance of cultural absorption was the Arab invasion and the introduction of Islam. The propagandised view and the one accepted instinctively by Iranians is that put forward by the Shah in his memoirs.

The Arabs, like previous invaders, found the Persian spirit unconquerable. The Zoroastrian religion died out, except among small remnants which still exist but otherwise the Persian culture triumphed for, as Arab scholars like al-Masudi and Ibn-Khaldun have recognised, it was so clearly the higher that there is no wonder Persian administrators, scholars and artisans continued to be employed.<sup>4</sup>

The fact that Persians adopted Arabic script and that the language henceforth relied extensively on Arabic loan words has been largely ignored to uphold the strength of indigenous culture

Despite this rose-tinted view of cultural absorption, the Arab invasion none the less showed how the Iranians were capable of giving their own contrary twist to things. Rather than adopt the full credo of Islam propounded by the Arab invaders, they opted for a new branch, Shiism, which regarded Mohammed's son-in-law, Ali, as the first true Imam, and rejected the three caliphs recognised by the orthodox Sunni Moslems as the Prophet's proper heirs. Further, through a mixture of legend and casuistry they managed to relate by marriage Ali's son, Hussein, to an Iranian monarch - so incorporating Shiism into nationalism. Although Iran is not the exclusive domain of the Shua faith, the Iranians attach enormous importance to the distinguishing features of Shiism that separate it - and therefore them - from the main body of Islam. For instance, an Arab ambassador new in Tehran recalled trying to find common ground with a senior Iranian official by pointing to their shared faith in Islam. 'Ah, but we are Shua!' was the immediate response.<sup>5</sup> The significance of the Shua faith is also reflected in the choice of Ali and Hussein as the boys' names still most widely used in Iran. Over 90 per cent of Iranian Moslems are Shua, the minority Sunnites are mainly among the Kurdish and Turkoman populations.

The sense of uniqueness also stems from a justifiable pride in the richness of past Iranian civilisations of which there are still tangible signs, like the ruins of Persepolis, the mosques of Isfahan, or the sophistication of Iranian poetry at a time when Europe was first emerging from the Dark Ages. Official propaganda has consistently played up this sense of uniqueness; and by and large, because it flatters the Iranian

ego, such propaganda is bought wholesale. The Shah himself employed the fact of the monarchy's 2,500 years of existence as a sort of stamp of moral rectitude for his opinions – especially in defending Iran against its foreign critics.

Emphasis on this uniqueness has tended to develop in direct proportion to the stress brought to bear on Iranian culture as it absorbs more and more from the West. This is a natural development for a proud people, but it complicates Iran's relations with both its surrounding neighbours and its Western allies: with its immediate neighbours from a sense of superiority and essential difference (despite being quite similar), and with the West through a sense of not wanting to look inferior, or wanting to imitate yet remain Iranian. These difficulties apply at both the formal diplomatic level and at a personal level. They account for a good deal of touchiness that provokes all sorts of irritants and problems. At its least complex, this takes the form of hyperbole and boastfulness. This can be seen in the Shah's boast of making Iran the world's fifth industrial nation by 1990. The advertising of Iran Air is another example. Although carried out by a foreign agency it nevertheless projects Iran the way Iranians wish it to be seen.<sup>6</sup> Wish fulfilment and the possible are merged into one.

At a more complex level this pride develops into an impatience with learning from foreigners, and a refusal to admit mistakes. This has seriously hindered the implementation of many development projects, especially since the 1973 oil price rise which itself further inflated the Iranian ego. Impatient to learn and convinced they know best, Iranians frequently ignore detail and berate their foreign instructors. Foreigners familiar with Iran and the Arab states of the Gulf confirm unanimously that the Arabs are easier to train and quicker to learn – one suspects this is because they are not burdened with the same weight of cultural baggage.

The greatest hindrance to the assimilation of new technology can be a refusal to admit ignorance. The shame of ignorance is very strong, but among Iranians the shame of being seen to be ignorant is even stronger. An expatriate manager of a large manufacturing complex found a machine-operator one day standing idly by his lathe. The lathe was not working, he explained. The manager subsequently discovered that the man had turned off the machine accidentally and was afraid to admit he had forgotten how to restart it.<sup>7</sup> The fear of loss of face through seeming ignorant is very marked throughout Iran. The authorities are always loath to admit mistakes. For instance, the reorganisation of agribusiness in Khuzestan had been held back primarily because it had

been unacceptable to admit mistakes have been made. Reorganisation would require the declaration of bankruptcy of at least two of the ventures, but such a move would lead to too big a loss of face.<sup>8</sup> The corollary to this is refusing to accept blame a woman recounting the death of her husband in a car accident explained he overtook a truck on the brow of a hill and an oncoming car refused to get out of the way! Another comic instance was a report filed at the tank depot in Shiraz by a soldier who claimed his Chieftain tank had been damaged when the compound wall 'leaped at the tank'.<sup>9</sup> When Iranian self-esteem is more seriously threatened, there is resort to chauvinism, and, in extremes, xenophobia. The gradual erosion of the close-knit family ties in urban areas, the advent of permissiveness among the younger generation, the infiltration of pornography and the spread of Western pop music have all put Iranian culture on the defensive. The Shah in a national call for cultural order when opening Parliament in October 1975 declared:

The determination of our nation that in this new era, it [Iran's cultural spirit] should obliterate all signs of weakness, decline, corrupt disorder, reflects the intellectual meaning that the positive and immortal Iranian culture should be cleansed of all pollution which might have crept into it through foreign elements.<sup>10</sup>

Blaming the foreigner is a time-honoured ploy and not the exclusive preserve of Iran, but the suspicion and mistrust of the foreigner that exists in Iran has been exploited to good effect by the authorities. In the summer of 1977 when the major cities were seriously affected by lengthy power cuts, the blame was put on the foreign contractor for failing in his obligations. In fact the reason was much more complex, resulting from pressure to install extra generating capacity without proper planning.<sup>11</sup>

This chauvinism has been exacerbated by a realisation that the foreigner with his much-needed skills and technology is exploiting the country. It is not like the past when Europeans came to Iran, albeit with the intention of exploitation, but with the time and leisure to appreciate the country and get to know its people. The new breed of foreigner in Iran is altogether more mercenary, less interested in understanding the country and more happy to live in isolation from Iranians. This can generate serious friction - most noticeable in Isfahan where a large group of American defence employees have found themselves in brawls directly attributable to their being obtrusive foreigners.<sup>12</sup>



But some of the reactions of Iran's accelerated contact with the Western world have been purely xenophobic. This has been provoked in part by a pained sense of inadequacy at Iranian culture being bypassed, especially in the language of higher education as a means of expression. Alarmed at the spread of foreign children's names, the publisher of one of Iran's leading newspaper groups, Farhad Massoudi, wrote in an article entitled 'Culture — the driving force behind Iranians': 'Should a parent become so estranged with his own national culture as desire to give his child a foreign name, the Government has every right to move in.'<sup>13</sup> Yet there is a more basic xenophobia which is less easy to understand. For instance, when a foreigner tried to settle a traffic accident dispute by using his secretary and driver, both were told by senior police officers that, as Iranians, they should be ashamed of trying to help a foreigner.<sup>14</sup> This is not an isolated instance. A sort of mutual solidarity pact has grown up among Iranians when they feel threatened by foreigners.

Stirring up xenophobia is a strong political weapon which generally Mohammed Reza Shah sought to avoid.<sup>15</sup> For a while it was successfully exploited by Mossadegh during the initial oil nationalisation period — arguably this was the element that unified the country behind him when he first made the move. More recently, xenophobia has been used by the more extreme and reactionary religious figures as a means of opposing the Shah. It has also been an undercurrent in some of the urban guerrilla ideology, especially those members recruited from fanatically religious families. More recently Ayatollah Khomeini has relied on a mixture of national chauvinism and xenophobia both to rally the population against the monarchy, for absorbing foreign influence, and, as a more general principle, to rid Iran of all foreign influences. This proved one of the main planks in his platform and was a major unifying force among the disparate opposition.

### **The Search for Security**

The stress placed upon Iran's historic cultural identity underlines the tremendous sense of insecurity that runs right through the Iranian psyche. Attempts have been made elsewhere to explain some of the causes for this all-pervading sense of insecurity — invasions and occupations by outside powers, poverty and a harsh climate and centuries of arbitrary and repressive rule. Yet remarkably, during a period of unprecedented social and economic progress, this sense of insecurity has been much in evidence.<sup>16</sup> The chief symptom is a mistrust: mistrust both of people and events. One of the stories attributed to the famous Mulla

Nasrudin catches this feeling very aptly – 'Take up this sack and carry it to my house', said Nasrudin to a porter in the market. 'May I be your sacrifice, Effendi. Where is your house?' The Mulla looked at the porter aghast. 'You are a disreputable ruffian, and probably a burglar. Do you think I could ever tell you where my house is?'<sup>17</sup>

No matter how favourable a situation might be, there is a general refusal to believe that it can last. Life is seen as inherently arbitrary and cruel. Those that succeed have been selected by God to do so – the Shah himself subscribed strongly to this view.<sup>18</sup> This fatalistic view of life is confirmed by religion rather than caused by it, although others would argue it was the other way round. With life so uncertain, the sole obligations owed are those to oneself and immediate family. The family is still regarded as the only effective bulwark against the hostile outside world. Support for the government is regarded as wise, only so far as this support can be easily removed. To survive and prosper you need a combination of luck, connections, sharp wits and few principles that risk being compromised by deviousness. With deviousness Iranians have made a virtue of necessity. The wily Isfahani, Hajji Baba – the fictional Iranian character depicted by the early Victorian diplomat, James Morier – showed this was a key to survival. So too did the quixotic Bahram Kirmani who was one of the portraits in Christopher Sykes' *Four Studies in Loyalty*.<sup>19</sup>

In practical terms this sense of insecurity means that few Iranians believe that the present fortuitous wealth from oil can last. It generates an innate cynicism.<sup>20</sup> There is little faith in public pronouncements and vague future goals. For instance, the Shah's vision of the great civilisation may have appealed to the Iranian ego, but Iranians are so sceptical that few rated it as credible. Moreover, because oil is a wasting asset, this adds to the sense of impermanence to wealth generated by it. The accrual of oil wealth has had little impact in dispelling national and personal insecurity.

The way in which this oil wealth has been spent also reflects this sense of insecurity and impermanence. Many a developing country with Iran's history of economic vicissitudes – especially the disastrous consequences of being unable to sell oil during the oil nationalisation by Mossadegh – would have chosen to act with more thrift. But there was no attempt at thrift. Why? Ostentation, itself a product of insecurity, has always accompanied new and quickly earned wealth. But ostentation alone cannot explain the almost frenetic spending that occurred in the two years after 1973. It seems that the sense of impermanence of oil wealth created an attitude of 'Now we've got it, we had

better spend it; because we don't know how long it will last.' Where national wealth is generated primarily from one source, which itself owes little to local initiative, there is less reverence for its accumulation. So money earned in this way becomes easier to spend. Also Iranians do not suffer from the same moral restraints over spending money that those in the bourgeois capitalist economies do. The Puritan capitalist ethic is wholly alien to Iran – and the Middle East as a whole for that matter. A bigger house or a bigger car earns more respect; and money spent with the sole object of impressing others is not considered ill spent. Envy and greed are encouraged, but not restraint. This accounts in large measure for the importance attached to lavish entertainment. Transferred on to a national scale, the same psychology can be found in the Shah's arms build-up, the unnecessarily large foreign assistance programme in the wake of 1973, and the purchases of Iranian shares in blue-chip Western companies.

In Iran's case, too, attitudes towards expenditure are affected by a residual bazaar mentality. The technocrat element within the administration is little more than one generation deep, and the mentality of the decision-makers is still strongly influenced by the bazaar. The Iranian bazaars have produced generations of astute tradesmen, but in a modern developing economy their philosophy of quick profits, quick returns is a handicap. Long-term planning and long-term investment are new phenomena, products of a still unfamiliar concept of long-term security.

Judgements about the use of private wealth can also be misleading if viewed solely against the experience of bourgeois capitalist economies. The Shah aspired to a market economy yet capital was accumulated more through influence, political favour and monopoly than by hard work, initiative and competition. So too the ultimate purpose of private capital is not pleasure or reward for hard work. It is to ensure political influence for an individual and members of his family. This is the sole guarantee of long-term financial, and personal, security. Therefore the safest investment is the one that secures access to the most influence and political favour. So long as the Iranian system of power ignores institutions and relies upon relationship between individuals, this situation will persist. This applies as much under a monarchy as under an Islamic republic.

Because there is such a premium on acquiring influence, corruption flourishes. When real power is in the hands of only one person, the best proven means of acquiring influence in the administration is through the purse. Moreover, because influence and political favour are the most valuable commodities, there is no moral stigma attached to paying to

obtain them or for receiving payment in return for giving them. Corruption is therefore built into the system; and oil wealth has simply stimulated the practice, not discouraged it. (There is an Iranian proverb to the effect that if you give a man an egg he will then want the chicken.) Foreigners have always been dismayed by Iranian corruption. The Victorian traveller Arnold speaks of the 'universal corruption of government'.<sup>21</sup> The Shah at regular intervals half-heartedly sought to stamp it out; but measures will work only when the system changes.

Just as corruption flourishes in this environment, so does flattery. The Iranians have learned over the centuries that flattery is one of the tools of survival. Perhaps with the exception of Kim il-Sung of North Korea, no other world leader tolerated – or encouraged – flattery so much as Mohammed Reza Shah. The local press on his birthday and other auspicious occasions carried full-page advertisements from institutions and companies extolling his virtues in the most sycophantic prose. Anxious to please, foreign companies were among the most obsequious. Where else but Iran could one find an advertisement bannered across a full page from a group of Italian companies that described their executives

and personnel assigned anywhere in the world, and those hosted by the generous Imperial Iranian nation with its trait of plurimillenary civilisation, and traditions of hospitality, feel proud and rejoice in having the honour of witnessing the Fiftieth Anniversary of the illustrious Pahlavi Dynasty, as well as the dynamic progress, the tangible achievements and the gigantic strides of the great Iranian people, under the illuminated guidance of the indefatigable farseeing Shahanshah Aryamehr Mohammed Reza Pahlavi.<sup>22</sup>

One effect of the rapid generation of new wealth has been to permit not merely the ruling élite but also the burgeoning middle class an alternate means of security. With day-to-day financial security in Iran assured by high incomes, there has been a tremendous movement of excess capital outside the country – in far greater quantities than the conditions of apparent security and rates of return in Iran should justify. This excess capital has gone mainly into the purchase of property and bank deposits in Western Europe and America but sometimes the investment has been in more ambitious ventures like manufacturing.<sup>23</sup> The scale has been such that since late 1975 about \$100 million worth of private capital has been leaving the country each month until stopped in November 1978.<sup>24</sup> The official view was that this was part of a two-way process, and a sign of Iran's emergence from being a developing economy.<sup>25</sup> But

all the indications are that it was a demonstration of the Iranian sense of insecurity. Refusing to believe in the durability of the boom or prosperity, the bourgeoisie sought to insulate themselves against any future changes of fortune by securing a second life for themselves outside Iran, and by doing so have now been able to become 'safe' exiles from Khomeini's Iran.

This permanent quest for security, and the consequent need to feel reassured and to be seen coping successfully with life has made dealings among Iranians, and between Iranians and foreigners, an extraordinarily complex affair. It is no accident that commercial and diplomatic negotiations drag on interminably; for negotiations begin with the suspicion of the simplest of statements and the most straightforward actions. Nothing is taken at face value. A mundane example was the publication of a photograph of a bank in the *Financial Times*. A senior bank official was convinced this was a deliberate choice designed to highlight certain recent activities of the bank which had been under scrutiny, when in fact the motive was the bank's design. The man refused to believe it.<sup>26</sup>

### New Influences

Religion is still the biggest single binding cultural influence, and acts as the most common point of reference for all classes of Iranians. A firm belief in God remains the ultimate refuge from the arbitrariness of life, and among the poorer and uneducated a pilgrimage to one of the Shiia shrines remains an important goal and a strong duty. Meshed receives some 3.5 million Iranian pilgrims a year.<sup>27</sup>

Despite its continued strength the Shah placed religion in an increasingly ambivalent position. For nationalistic reasons religion was encouraged: yet the authorities sought to suppress the influence of attitudes engendered by Islam that conflicted with modernisation. The authorities were also permanently on the watch lest religion be exploited for political ends opposed to the government. Religion was encouraged in that state funds were used to build mosques, and even Pahlavi funds had been used to help restore the shrines of Meshed. It also suited the Shah to encourage the Shiia cult of paying homage to saints and martyrs as a means of defying the Pahlavi dynasty's founder Reza Shah (the large mausoleum at Rey is ample evidence of this). Strict observance of Shiia holy days is part of the national calendar, particularly Moharram, which contains the Shiia's holiest day Ashura, celebrating the martyrdom of the Imam Hussein.<sup>28</sup> The clergy retain a strong hold over society, especially its poorer and less educated members, which constitute over two-thirds of the population. Religious fanaticism

persists in cities like Qom.

This situation tends to cause a good deal of confusion and misunderstanding when the government decides to by-pass religion and religious ethics. For instance, the Shah made the civil status of Iranian women on paper among the most advanced of any developing nation. But in practice it was still among the more backward. Reza Shah abolished the veil in 1936, but forty years later the vast majority of Iranian women are symbolically veiled outside the house in that they continue to wear the *chador* – a loose length of cloth covering the head and stretching to the ground that is held in place either by the hands or the teeth. Women may wish to exercise their rights and act more freely but are prevented from doing so by their families, husbands or the force of social convention. For instance, a physiotherapy lecturer discovered the women students refusing to learn massage techniques until the mullah approved.<sup>29</sup>

Official initiative was less important in eroding the hold of religion than the accelerated pace of economic development and the accompanying social changes. Aspirations to possess new and better housing, modern domestic appliances, cars and status clothes have had a major impact in the large cities since the early 1970s. The pressures created by these changes on traditional and highly conservative backgrounds have been considerable. Iran's urban youth has borne the chief brunt of this. In a study on suicide in Tehran, it was noted that the most prevalent instances of attempted suicide were among the 16-20 age group coming from very strict and fanatical families.<sup>30</sup> Non-Islamic youths from Armenian, Jewish or Zoroastrian backgrounds have managed to cope with change more effectively, perhaps because as minority groups they have to be outward-going to survive.<sup>31</sup>

As a sign of these pressures – and as a reaction to the insecurity seen to surround the lives of their parents – students at the universities try to enter professions that combine financial reward with security and social respectability. There is a special mystique about studying medicine. In 1977 over 15 per cent of the 300,000 students applying for entry to Tehran University wanted to do medicine as their first choice. This meant that upwards of 45,000 students were competing for a mere 300 places in the faculty.<sup>32</sup> Perhaps it is no coincidence that a qualified doctor is one of the persons who has the least difficulty in finding a job outside his own country.

While traditional values were under attack, little of cultural worth was being substituted. The aim was that Iran import whatever is culturally valid from abroad (in practice Western Europe and America) and

the inherent Iranian genius would mould this into a new and regenerated national culture. Unfortunately ideas and habits brought in from abroad which were considered politically embarrassing or inconvenient, were immediately branded as foreign: polluting Iranian culture. Culture, in fact was just another tool of the political system in Iran, and survived only where it was allied to the system. Despite an appearance of liberalism and cultural dynamism in international arts festivals and the like, modern Iran was culturally bankrupt. Culture at this level was a plaything of the élite, in particular those surrounding Empress Farah, and existed in a complete vacuum. The annual Shiraz arts festival and the Tehran film festival were primarily designed to associated international culture with Iran; but the domestic impact of these festivals could be found in the long queues for cinema festival tickets and half-empty cinemas with unused seats reserved for the well connected. The interaction of politics and culture is well reflected in a provincial theatre where the auditorium was dominated by a royal box liable to be used once a year. Yet for security reasons the box seats were so recessed that the royal audience could not see the stage properly.<sup>33</sup>

Moreover the Iranian's cultural superiority complex makes it virtually impossible to look for inspiration within the region or among their neighbours. The natural assumption is that Iranian culture should link up with Western culture. So when Iranians travel they go to Europe or America. Travel, an important means of education, is carefully controlled. Apart from security screening there is a punitive exit tax, equivalent to \$280 per person, which affects precisely those who could benefit most – students and lower-income groups. It also means that when people have only one opportunity to travel, they want to travel outside the region.

Since 1973 enormous sums have been spent providing modern Iran with a tailor-made national culture. Iranian *objets d'art*, paintings and antiquities have been bought in international auctions, museums opened, a collection of Western painting begun, a series of nation-wide cultural complexes designed, education expanded and historical monuments restored.<sup>34</sup> Though well intentioned, the over-all effect is that of a wealthy businessman filling a newly built house with things chosen by someone else, yet which he seeks to identify with. The correct objects and institutions are there, but often poorly utilised or appreciated for the wrong reasons. Yet none of this bears any real relation to the country's own cultural vigour. The two most readily identifiable indexes of a nation's cultural vigour – the state of the universities and the strength of the publishing industry – speak for themselves.

Despite a sharp increase in the number of people able to read and write, the number of titles published is in decline. Between 1970 and 1976 the number of new titles and reprints published annually dropped by almost 30 per cent. In 1976 only 3,200 titles were published, of which 1,580 were new (accounted for 36 per cent by literary books and 18 per cent by religious subjects).<sup>35</sup> The level of titles published is infinitely lower than nations of similar size like Turkey or Egypt.<sup>36</sup> The circulation is also revealing. No more than 13 per cent of all non-school books have a sale of over 3,000. The best-selling non-school book is *How to care for your car*, with sales of 15,000.<sup>37</sup>

The publishing business has been seriously hit by the major increases in production costs which have occurred since 1970. In turn sales have been affected by higher cover prices. But commercial considerations are intimately linked to political ones. Fewer and fewer publishers want to stay in a business where one 'error' in a book could lead to heavy fines or closing down of production. Further, the time-consuming nature of censorship and its attendant restrictions have taken their toll of the industry. Parallel to this, authors in protest at their lack of freedom have refused to allow publication of their works for fear that they be seen as condoning the régime and their being adopted as a cultural mascot. Writers and artists are subject to intimidation or repression, including inability to have their works published, if they appear remotely critical. Since 1976 the Writers Association of Iran has been seeking in vain to register and acquire legal status so that it may hold meetings.<sup>38</sup> Tougher measures have also been applied to some of the country's best-known artists and intellectuals. For instance Iran's best historian, former Ambassador to India Fereidoun Adeneyat, and Gholam Hussein Saedi, responsible for the prize-winning film 'The Cow', are among the more internationally recognised who served prison terms under the Shah.<sup>39</sup>

The plight of the universities is in many ways more serious.<sup>40</sup> The universities represent the pool of talent and ideas for the future. If Iran is to cope with modernisation and absorb successfully all the highly sophisticated technology it is importing, the universities and other institutes of higher education have to produce students of good calibre. The Shah certainly appreciated this. But the quality of the universities has been sacrificed to preserve the stability of the régime. Rather than allow the universities to be free and independent, they were kept under tight political control for fear they might develop as centres of political opposition. In consequence, the quality of staff and the calibre of the graduated students has gradually declined. The situation was summed up in a pained open telegram sent by a dissident lawyer to the Prime



Minister, Jamshid Amouzegar, in October 1977, shortly after he took office.

You are certainly aware that for the last twenty years as a result of successive governments abusing individual freedoms, our universities – the nation's most valuable educational resource – have ceased to be places of learning. Instead they have been transformed into military fortresses with the setting up of iron barricades, the disposition of armed security guards and inadmissible interference by the security forces. This can only incite anger and disgust among young free thinking people . . . Not surprisingly the universities of Tehran and the provinces have been in a state of closure or semi-closure most of the time.<sup>41</sup>

The emasculation of the universities' vitality and the damaging effects of frequent disruptions throughout the academic year because of strikes or forced closure have been major handicaps to the development of quality education. More insidious, but equally damaging, has been the pressure on universities to churn out an ever-growing number of graduates to fill the skilled manpower shortage. Tehran, the oldest and largest university, is attempting to resist further expansion from 18,000 to 25,000, but such is the pressure that the volume will almost certainly have to be increased, with yet a further dilution of quality.<sup>42</sup> Lower down the scale, the educational system needs 40,000 new teachers a year but can produce only half this amount. The shortfall is being made up largely by expanding the existing student-teacher ratio so that it now stands at 100 to 1.<sup>43</sup>

Where possible a parent will try to ensure that a child attends a non state school (an option mainly for those in Tehran) and all the foreign schools in Tehran are heavily over-subscribed. The wealthier seek schooling abroad, some on political grounds that syllabuses are propagandised to favour the régime, most out of simple considerations of quality and greater opportunity. The same goes for university education abroad, although here government loans and grants are available – against guarantees of subsequent government service for a specified period of time. About 60,000 Iranians are studying abroad in universities or technical colleges, mostly in Europe and America. Of these a small proportion each year refuse to return home, the catalyst being the prospect of military service. For those who opt to go back, the return can prove a traumatic experience with an eventual cynical trade-off: reduced freedom for greater material gains. Poking fun at

themselves, Iranian intellectuals tell the story of an Iranian dog that crosses over into Afghanistan where he is met by a host of hungry, scrofulous dogs. After lengthy formal greetings and many compliments on the elegance of his fine coat, the Iranian dog begins to boast about how well he is fed and housed, the magnificence of the hospitality in Iran. Puzzled, the Afghani dogs ask why he has come across the frontier? When he has finally finished boasting, the Irani dog turns and says, 'I wanted to come across here to have a good bark.'

None of this is conducive to a flourishing national culture or the development of new ideas. It merely makes for a more troubled national psychology and exacerbates the negative responses of chauvinism, cynicism and suspicion.

### Notes

1. Mohammed Reza Shah Pahlavi, *Mission for My Country* (London, Hutchinson, 1974 edition), p. 31.
2. Ibid., p. 29. 'I won't dispute with those who claim to see Persian individualism reflected in the wild and free tactics of Tehran's famed taxi drivers.'
3. See Roger Stevens, *The Land of the Great Sophy* (London, Methuen, 1971 edition), p. 34. 'There is perhaps some peculiar suppleness, some inherent flexibility in the Iranian character.'
4. Mohammed Reza Shah Pahlavi, *Mission*, p. 23.
5. Recounted to the author by the ambassador concerned. Iranians play down as far as possible their historic links with the Arab world.
6. See *Financial Times*, 5 May 1976. The campaign was geared to make the public believe Iran was in the top league of nations.
7. Recounted to the author by the manager.
8. A consensus view of foreign experts connected with agribusiness in Khuzestan.
9. Recounted to the author by a British official involved.
10. *Tehran Journal*, 25 October 1975.
11. One of the most unusual instances of blaming foreigners was a court action against a Swedish company, Sentab, for responsibility for the collapse of Tehran International Airport roof in December 1974 (causing the death of 17 persons). Sentab built the building in 1947 and the collapse was caused by subsequent unauthorised covering of the roof and heavy snow.
12. Recounted to the author by US defence employees in Isfahan.
13. *Tehran Journal*, 25 October 1975.
14. *Tehran Journal*, 13 June 1977.
15. SAVAK exploits xenophobia to damage intellectuals. For instance, in September 1977, to discredit intellectuals calling for greater freedom, SAVAK-sponsored leaflets were circulated from 'The Committee Against Worshippers of Foreign Elements', saying they had been corrupted by foreign culture.
16. For an exhaustive analysis of Iranian feelings of insecurity, see Marvin Zonis, *The Political Elite of Iran* (Princeton, N.J., Princeton University Press, 1971), pp. 199-298.
17. Idries Shah, *The Exploits of the Incomparable Mulla Nasrudin* (London,

Picador Edition, 1973), p. 87.

18. Mohammed Reza Shah, *Mission*, pp. 54-8. See also his interview with Oriana Fallaci, *Interview with History* (Boston, Houghton Mifflin, 1976), pp. 267-8.

19. James Morier, *The Adventures of Hajji Baba of Ispahan* (London, Oxford University Press, 1939). When this book was first published the Iranians refused to believe its author was an Englishman. It remains one of the most witty and perceptive views of the Iranian character. See also Christopher Sykes, *Four Studies in Loyalty* (London, Collins, 1946), pp. 40-79.

20. Zonis. *The Political Elite*, pp. 251-9. Zonis regards Iranian cynicism as highly damaging to political development. 'Beset by personal insecurities, mistrustful of themselves and their fellows, and cynical about the motives of all persons and the outcome of all programmes, the elite respond by coping with the system, not by attempting to alter it in fundamental ways . . . while conducive to stability, the consensus is maintained only at great costs to the processes of political development in Iran' (p. 329).

21. Arthur Arnold, *Through Persia by Caravan* (London, Tinsley Brothers, 1877), Vol. I, p. 207.

22. *Kayhan International*, 5 August 1976.

23. Unlike the Gulf Arabs and Saudis, the Iranians have been more discreet about their investments. One Swiss investment specialist dealing with Iranian clients estimated to the author that these clients had between 15 and 35 per cent of their total assets outside Iran. Each client's external portfolio was over \$1 million. The most publicised manufacturing interest purchased by an Iranian has been Philco Italiana. See *Financial Times*, 18 January 1977.

24. Based on conversations with Bank Markazi and checking with the experience of individual banks. From 10 April to 10 May 1977 one small bank processed \$34.5 million of special dollar transfers and almost £15 million of sterling transfers. The capital outflow was increased following the switch to payment of foreign contractors in rials at the end of 1976. There is no distinction in the Bank Markazi books between this and private Iranian outflows.

25. Comment to the author by Hushang Ansari, Finance Minister, 4 May 1977.

26. The photograph was of the Iranians' Bank.

27. *Iran Almanac*, 1977, p. 394. This compares with only 39,296 going to Mecca for the Hajj in 1976. The Hajj was made prohibitively expensive for prospective pilgrims, costing about \$1,700 per person for a month.

28. The government sought to prevent ritual beatings with chains and thongs at Moharram but the practice continues.

29. Recounted to the author by the lecturer concerned, who taught at Tehran University.

30. *Kayhan International*, 29 December 1976.

31. There were some 250,000 Armenians, 80,000 Jews and 30,000 Zoroastrians in Iran before the Revolution.

32. Based on author's interview with Dr Mofidi, Assistant Vice-Chancellor of Tehran University, on 16 July 1977. Students have ten faculty choices. Failure to get first or second preference leads to drop-outs who try to take entry again. The drop-out rate is 10 to 12 per cent.

33. Recounted to the author by consultants charged with restructuring the theatre.

34. For comment on the purchases of Iranian dealers and the Queen's Office, see the weekly column by Souren Malikian in the *International Herald Tribune*. Since 1973 Iranians have been bidding against each other, paying inflated prices. By 1976 state funds for art purchases abroad had begun to be cut drastically.

35. *Iran Almanac, Echo of Iran*, Tehran, 1977, pp. 141-2.

36. *Ibid.*

37. *Kayhan International*, 22 November 1976.

38. *Guardian*, 26 October 1977. The main objection was the writers' refusal to become members of the single political party, Rastakhiz.

39. These were among 40 artists and intellectuals who sent a three-page letter in June 1977 to the Prime Minister, Amir Abba Hoveida, calling for greater freedom.

40. In 1976 Iran possessed 21 universities and 206 colleges of higher education, with a total student population of 154,000 (110,000 male; 44,000 female).

41. This telegram, of which the author has a copy, was also sent to the national press but was not published. The sender was Dr Mostafa Bagher-Kermani.

42. Information supplied by Dr Mofidi, Assistant Vice-Chancellor, Tehran University.

43. *Kayhan International*, 21 October 1976.

## 12 OPPOSITION AND REVOLUTION

Plans made in the guise of reform or revolution have failed. Worst of all, human rights and individual freedoms are being disregarded. The principles of the Constitution and the Universal Declaration of Human Rights have been violated on an unprecedented scale.<sup>1</sup>

This extract from a two-page open letter sent to the Shah in June 1977 was symptomatic of the *malaise* that surfaced as the Iranian middle class realised the extent of the failures of the march towards the Great Civilisation. In the light of subsequent events the contents of the letter might seem mild. But at the time the letter had a tremendous impact both for what it said and who was saying it. Within two weeks of it having been delivered to the Shah, some 10,000 copies had circulated in Tehran among the intelligensia, disaffected civil servants, students and some sections of the armed forces.

The letter was couched in a clever Persian mix of respect and insolence. The Shah for instance was addressed by his strict constitutional title and the usual 'Aryamehr' (light of the Aryans) was dropped; the new monarchical calendar, introduced the previous year, was deliberately replaced by the old solar calendar. The letter's basic point was that a deep *malaise* existed within the country. The Shah was taken to task for ignoring the Constitution and for creating a system of government which was 'despotism in the guise of monarchy'. His economic policies were criticised for having created excessive inflation, shortages of food and housing and for having squandered Iran's most valuable resource, oil. The letter pointed out that if the Shah chose to take all the credit for the development of Iran, then he should also take the blame for what went wrong. The authors concluded by calling for observance of the Constitution, release of all political prisoners, freedom of the press and a government based upon majority representation.

The authors of this letter were not political unknowns but were all persons from professional backgrounds who had been associated with Mossadegh's National Front. The three persons who signed the letter – Dr Karim Sanjabi, Dr Shahpour Bakhtiar and Darioush Forouhar – were in their sixties and seventies and had been connected with Mossadegh's brief administration. Sanjabi, the oldest, was 74. Though politically silent for several years, they had impeccable opposition credentials. Both Bakhtiar and Forouhar had spent time in the Shah's jails.<sup>2</sup>

In the past disgruntled intellectuals had circulated unsigned pamphlets and individuals had made cautiously implied criticism. However, not since the crushing of the opposition in 1963, had the Shah been personally attacked in such a direct and damning manner by persons who were known to be members of the opposition inside Iran and who were prepared to put their names to what they said. This protest was articulating the views of the middle classes, the social group intended to draw the most benefits from the Shah's Iran.

Despite the criticism of the régime, the authors were not calling for the overthrow of the Shah and the Pahlavi dynasty. Rather it was an anguished plea by loyal Iranians conscious that unless the Shah made changes and observed the 1906 Constitution, the country faced an uncertain future. The authors, like many of their tacit supporters in the professions, were constitutionalists; western educated liberals who had a strong stake in a stable Iran. Their form of criticism was also peculiarly Persian – a deftly worded letter that held out the opportunity for bargaining and compromise. This letter had been preceded by another in May which took the form of a 200-page critical essay on the state of Iran, written by a former editor of *Kayhan* newspaper, Sadr Hadj Javadi. This did not attack the Shah directly, but the fact that it was sent to the Shah and no reprisals were carried out against its author encouraged the National Front authors to raise their voices.<sup>3</sup> At the same time as the Sanjabi/Bakhtiar/Forouhar letter was circulating, another letter, signed by 40 well-known authors and artists, was sent to the Prime Minister, Hoveida, demanding an end to censorship and official recognition of the Writers' Guild.

Another courageous intellectual had in May attacked the two-year-old single party system. Ebrahim Khajenouri, a prominent historian, had written an open letter to the party paper, *Rastakhiz*. He said that the party had failed to create the promised dialogue between the government and the people. Stressing the prevailing mood of cynicism towards the party, he wrote: 'The majority either do not speak, or if they do, they do not speak the truth.'<sup>4</sup>

About this time a progressive group of lawyers, who over the years had kept a loose association, began to make another important series of protests. In May, 53 of them had sent a telegram to the head of the Shah's Special Bureau, Nasratollah Moinian, protesting over the way important changes in the judicial system were being rushed through parliament (see Ch. 8). This was followed by a manifesto signed by 64 lawyers on 11 July demanding an end to special courts, curtailment of the constant encroachment by the executive on the powers of the

judiciary and observance of the rule of law. Then in September, 54 judges sent a letter to the head of the Supreme Court expressing detailed and deep disaffection with the system of justice. This letter was supported by 110 retired judges in the province of Zanjan. The progressive lawyers, this time 143 of them, issued a new manifesto in October and announced their intention of forming an Iranian Jurists Association – something which two months later transformed into a committee to monitor the observance of human rights in Iran.<sup>5</sup>

In no sense could these protests be called a mass movement. They came from an educated élite who were best able to express their exclusion from the political process. The protests were not co-ordinated but established a spontaneous momentum: one tended to trigger another creating a snowball effect. The kind of pressures awaiting to be released were evident in a series of poetry readings staged at the Irano-German Institute in Tehran in late October which attracted crowds of over 10,000. This was wholly unprecedented.<sup>6</sup>

### **Lifting the Lid**

Overall there was a certain cause and effect between these protests and the souring of the Shah's grandiose development dreams for Iran. Many of the professional classes, including the protesters, had benefitted substantially in financial terms from the boom. The writing may have been on the wall as early as 1975, but relatively few were willing to admit this then. There is little doubt that the courage to protest had been sapped by the years of affluence. That it returned now was primarily due to two factors.

One was a mounting sense of frustration and anger at the régime's inability to change its ways. The Shah continued to tolerate monumental corruption among those close to him. The annual efforts to stamp it out were merely cosmetic. It was common gossip that the Royal Family was, for instance, linked to the running of seven heroin plants in Hamadan. A second source of strength for the re-emerging opposition came from outside Iran. At the end of 1976 Jimmy Carter had fought and won a US presidential election campaign in which the theme of human rights had figured prominently. Once in office he pressed ahead with his policy intimating that he expected not only America's adversaries in the Soviet Bloc but also its own developing country allies to pay greater deference to human rights. Within Iran, the Carter human rights policy was seized upon as a form of protective umbrella. Disaffected intellectuals and former opposition politicians argued that the US could not easily tolerate the continued repression of

legitimate non-violent protest by an important ally like the Shah.<sup>7</sup>

The authors of the Sanjabi/Bakhtiar/Forouhar letter were in no doubt that, had they written the same letter 18 months earlier, they would have been jailed.<sup>8</sup> Instead they were ignored. No attempt was made to prevent this or other letters and manifestos from circulating privately. The authorities however drew the line at open publication. Despite several statements to the effect that anyone could voice criticism and that the newspaper columns were open to reasonable protest, nothing critical was published in the officially controlled press. Ironically by circulating as 'underground' literature the impact of these protest letters was probably greater.

The extent of direct American pressure on the human rights issue can be overstated. Apologists for the Shah argue that he was not influenced by the advent of President Carter and that in late 1976 he had already decided upon a new and more liberal approach. While it is true that by October 1976 the Shah had appreciated the failure of his existing policies, it is probably also true that he anticipated greater American pressure to liberalise. Thus rather than act under duress, something he never liked doing, he sought to forestall American pressure by taking the initiative himself. Hence in April 1977 the first public trial of persons on alleged anti-state charges was permitted, the International Red Cross was allowed to inspect 20 prisons and new laws were introduced regarding military tribunals. But the Shah had been under discreet pressure from the US and Western governments for at least two years. Such pressure in the past was largely ineffectual because the motives were purely cynical — efforts to relieve domestic embarrassment over revelations of repression in a country with whom there were close relations. Besides Western governments realised there was little they could do to force the Shah's hand. They could only act in an indirect way. For instance in early 1977 SAVAK became increasingly concerned at the activities of exiled extremist groups suspected of linking up with foreign terrorist organisations. In return for greater co-operation from Western intelligence services on activities of exiled Iranians it was agreed to provide greater information on political prisoners in Iran.

The Shah's actions suggest that in early 1977 he conceived a limited and carefully controlled liberalisation. Indeed the measures can only be considered liberal in comparison with the previous policy of heavy handed repression. It seems he thought he could allow the protesters to let off steam without risk. His most important gesture was to remove Hoveida from the Premiership in July 1977. Apart from the Shah,



Hoveida was the man most clearly identifiable both with the boom and with the more general political structure, having served as Prime Minister since 1965. But Hoveida was only in one sense a sacrificial victim to the popular frustrations of the failures of the Plan and the inability of the Rastakhiz Party to generate political participation. He was not wholly rejected but was taken on as Court Minister. Meanwhile the Shah chose Amouzegar, then head of Rastakhiz, as Premier. This was no new departure. An honest, capable technocrat, Amouzegar was nothing more than a servant of the Shah who saw it as his task to reduce economic growth and tidy up the economic mess, not satisfy wide-ranging political demands. The Shah still thought political debate could be channelled through Rastakhiz. More importantly, the Shah, by going first to Washington in November 1977 and then entertaining President Carter in Tehran at the end of December, gave the impression of having worked out a deal. The opposition believed that in return for Iran moderating its stand on oil prices within OPEC, the US would guarantee continued arms supplies, continued full diplomatic support for the Shah and would play down the human rights issue. There were elements to support this supposition. Iran in December swung behind Saudi Arabia's oil price freeze policy. This was the first time the Shah had willingly accepted a price freeze (which was not necessarily in Iran's own economic interest). The US for its part from December onwards played down the question of human rights in Iran.<sup>9</sup>

The attitude of the security services reinforced the opposition view that the Shah's political reforms were cosmetic. Mistrusting the effects of any relaxation, SAVAK took a hard line from the start doing its best to intimidate the protesters as the opposition movement snowballed towards the end of 1977. Bombs exploded 'accidentally' outside the houses of prominent protesters and 'unknown' thugs beat up known opponents of the Shah. Gangs of 'incensed' pro-Shah workers broke up protest meetings.<sup>10</sup> The head of the group of Zanjan judges that protested was 'persuaded' to resign while similar threats were extended to Tehran judges involved in signing manifestos on legal reform.<sup>11</sup> The extent to which such activities, carried out in the name of the Shah, were directly controlled by him is questionable. It is probable that SAVAK over zealously interpreted its role.

### **Constitutionalists and Revolutionaries**

This bourgeois constitutionalist movement derived its principal inspiration from the ideals and example of the National Front's past activities. Being as it was only a loose grouping of nationalist parties and personal

factions, the Front's ideology could be made all things to all men. Adherents ranged from conservative nationalists to social democrats and socialist republicans. Those associated with the National Front derived legitimacy from the struggles of Mossadegh against the Pahlavi dynasty and the subsequent resurgence of opposition to the Shah at the time of the White Revolution from 1960-3. The National Front now served as a sort of political identity tag.

Another group in the same mould, though more avowedly Islamic, was the Iran Liberation Movement. Headed by a successful engineer, Mehdi Bazargan, the Iran Liberation Movement had originally been part of the National Front but had found itself at odds with the Front's emphasis on socialism. In the case of both these parties the revival of political activity did not initially take the form of rebuilding party organisations which had always been weak. Indeed one theory canvassed by the opposition was that the Shah tolerated these movements in his new controlled liberalisation precisely because they were weakly organised – unlike the banned Iranian Communist party, the Tudeh (Masses) Party, which alone had shown an ability to organise and whose ideology presented a genuine challenge to the Pahlavis.<sup>12</sup>

In isolation this semi-legal opposition would have squeezed small concessions from the Shah. But they were only the more visible and tangible sign of a generalised disaffection, particularly in the big urban centres of Iran. These disaffected groups could be classified as follows: (a) the students; (b) the small underground guerilla movement (c) the clergy; (d) the new rootless urban proletariat; (e) the Bazaar merchant communities. The disaffection of these groups was most evident in Tehran but it was limited neither to the capital or even to the large towns. With the exception of the clergy, none of these groups had the chance to articulate their grievances – or if they could it was in isolation. Because they lacked a natural forum to express themselves, it was easy under the Shah's system, with the lid tightly shut on political activity, to ignore their existence. Moreover, once the lid was eased, it took time for them to articulate their views. Therefore, in one important sense the bourgeois constitutionalists were in the vanguard.

### **The Students**

In the period of repressed stability from 1963 onwards, the rapidly expanding student population was the most active political group in Iran. It was rare for the academic year to pass without serious disruptions in one or several of the main universities of Isfahan, Shiraz, Tabriz or Tehran – especially the latter two. This state of agitation was

campus and the security services had easy access to ample documentation on each student. Riots could go on inside the university and be brutally repressed, yet such incidents had only limited reverberation throughout the rest of the city.<sup>17</sup>

The mood of constitutional protest was quickly seized on by the students, and the autumn term of 1977 was heavily disrupted. But the students' real importance came a year later when their tradition of fearless protest and their knowledge of dealing with the security forces were a significant aid to the anti-Shah forces.

### **External Opposition**

The authorities showed equal preoccupation, if not more, with the activities of Iranian students abroad. This was because of their greater visibility and their links with the exiled political groups determined to change the Shah's Iran. The most visible organisation was the Confederation of Iranian Students Abroad over 60,000 strong and embracing both past and present students. It was founded by the Tudeh Party in 1960 but the Tudeh leadership gradually lost control to other groups who rejected orthodox Soviet Communist domination of the Confederation. By 1977 the Iranian authorities were concerned by an increasing radicalisation of its activities and by its development as 'an umbrella for national and international terrorism'.<sup>18</sup> The officially controlled press went to great lengths to recount tales of students who had been misled by false Confederation propaganda about conditions in Iran. The official view was that the students outside Iran had little idea of the social and economic progress inside the country.

Despite the much weakened Tudeh link with the Confederation, the Iranian Government had a constant fear of the potential of the Tudeh Party. Not only had it shown in the past an ability to penetrate all key aspects of Iranian life (see Ch. 4) but also it was directly supported by the Soviet and East European Communist Parties. Bulgaria the most faithful of the Soviet allies, was used as the site for Radio Peik'i Iran, which beamed hostile broadcasts to Iran from 1959 onwards. However the degree of hostility was rarely consistent and reflected Moscow's changing humour towards Iran. Once the Soviet Union committed itself in 1962 to economic co-operation with Iran, the Tudeh Party and these broadcasts lost what little independence previously existed. The fact that the Soviets were willing to close down the station in early 1977 – just when the Shah was embarking on his liberalisation – indicated the value Moscow placed on good neighbourly relations with Iran.

Moscow's tight control encouraged defections to more radical ideologies, especially Maoism and Trotskyism. This further weakened the impact of the party – and at the same time weakened the potential cohesiveness of the exiled opposition which throughout had proved argumentative and factious.<sup>19</sup> Perhaps the Tudeh's greatest tactical error was to attempt an alliance of convenience with the former head of SAVAK, General Bakhtiar, in 1969. The Tudeh calculated that they could ride the back of General Bakhtiar, supported by the Iraqis. But Bakhtiar was no Communist or revolutionary, merely someone with a strong grudge against his former protector, the Shah. Finally the Tudeh was discredited for having been successfully penetrated by SAVAK on one if not several occasions.

### The Guerilla Groups

The more serious threat came from those groups who sought to combat the régime from within by violent methods. As early as 1965 a small group of Iranians, inspired by Maoism and admiring the achievements of Fidel Castro, began training in Cuba with a view to underground guerilla activity.<sup>20</sup> Subsequently others received training in East Germany, Palestinian refugee camps under PLO, in Aden (PDRY) and in Libya.<sup>21</sup> At the beginning of the 1970s there were at least four groups, essentially drawn from the Iranian student milieu abroad or at home, ready to initiate guerilla activity. They were not unified and espoused differing ideologies, which were a confusing blend of revolutionary Marxism and conservative Islamic fundamentalism. The two main groups to emerge were the People's Fighters' Organisation, subsequently known as the Mojahidin, and the Iranian People's Fedayeen Guerillas, 'The Fedayeen'.<sup>22</sup> The Mojahidin's objective was to overthrow the Pahlavis and install a just society based on a home-grown blend of Islamic and Socialist/Marxist principles. The Fedayeen on the other hand were avowedly Marxist and secular, though their initial objective – ridding Iran of the corrupt Pahlavis – was the same.<sup>23</sup>

Their tactics were similar: bank robberies, bombing of police stations and other public buildings, and the assassination of SAVAK officials and persons symbolising foreign domination. A significant number of actions were aimed at symbols of foreign cultural, economic and political domination, especially American.<sup>24</sup> The Mojahidin started in February 1971 with an attack on a police post in the Caspian village. A good deal of folklore has come to surround this incident, but as Fred Halliday points out the attack itself was a military failure and its main significance was symbolic.<sup>25</sup> Siakhel marked the start of a small

and highly clandestine guerilla movement. The guerilla leadership eschewed the idea of operating from the countryside, seeking the backing of the poor and backward rural population. The official Iranian view was that the peasants wanted to have nothing to do with them, and given the conservative nature of the Iranian farmer this assumption could be correct.<sup>26</sup> The guerillas instead concentrated on the large cities, their activity reaching a peak in 1975 and 1976.<sup>27</sup> During this time they carried out several significant actions that included the assassination of two US Air Force colonels working on secondment and a SAVAK brigadier in March 1975, and the killing in August 1976 of three US employees of Rockwell working on the Ibx intelligence communications project (see Ch. 10).<sup>28</sup>

At any one time there were probably no more than 300 guerillas active. At the cost of being mercilessly hounded and given no quarter they succeeded in mobilising a formidable police force against them. Some Western observers in Tehran believed that by early 1977 the guerilla movement had been crushed, albeit temporarily.<sup>29</sup> According to exiled opposition sources 380 guerillas died in clashes with the security forces between 1971 and 1977.<sup>30</sup> If the number of captured guerillas subsequently executed is also included, then the figure was undoubtedly higher.<sup>31</sup> The high rate of attrition was not surprising. The guerillas, mostly drawn from educated backgrounds, were operating in a vacuum. Frequently the prime purpose of their actions was demonstrative, and since the local press either ignored or played down such actions this robbed them of any impact.<sup>32</sup> On the whole the people who knew about their activity were the middle class and the élite, while the urban proletariat – those who might have had sympathy for their actions – were either ignorant or impassive. In addition the ideology of the two main movements was sufficiently confused to permit the authorities to exploit the label 'Islamic-Marxists', which helped discredit them. As a motor force in the gathering momentum of protest against the Pahlavi dynasty, the guerilla movements' role was not large. Their main contribution was twofold. They served as an example of groups of persons willing to die to change the régime. Secondly their connections with the Palestinian resistance movement provided an important channel for weapons which began to enter the country in increasing quantities from mid-1978.

### **The Religious Factor**

The middle-class constitutionalists did not overtly identify themselves with any religious revival when they first began to protest in 1977.

However, it was either explicit or implicit in their statements and manifestos that traditional Iranian values – essentially ones stemming from Shiism – were being corrupted. In general objection to the continued corruption, at all levels of the system, served as a common link between the clergy and the constitutionalists.

Over the years contacts had been retained between the dormant opposition and progressive members of the clergy. In particular politicians from the National Front and the Iran Liberation Movement had retained their ties with the most progressive among the Shiite hierarchy, Ayatollah Taleghani. These links were reinforced during 1977. However, religious protest was not formally co-ordinated with that of the constitutionalists, even though in January 1978 the leading religious figure inside Iran, Ayatollah Shariat-Maderi, came out in support of the constitutionalists. The answer was that the traditional political opposition was suspicious of the mullahs. While careful not to antagonise deep-felt religious sentiment, they were wary of the potentially reactionary nature of the bulk of the clergy. This was why the politicians in June 1963 did not throw their support fully behind the mass demonstrations in support of Ayatollah Khomeini's stand against the Shah's White Revolution.<sup>33</sup>

However, both they and the régime seemed unwilling to admit that the clergy lived much closer to the people and were consequently more aware of popular feeling. The mosque was an integral part of the Bazaar and the Bazaar was still the centre of ordinary Iranian life, no matter what had happened during the boom. When religious figures opposed government policy their views had a legitimacy and they were listened to even at the times of toughest repression. Added legitimacy was given to such pronouncements by the nature of the clergy's hierarchy which owed nothing to officialdom.

A person enters the clergy via a seminary which for the Shiia are centred in Tehran, Meshed and Qom in Iran and Najaf in Iraq. The seminary does not study theology exclusively and subjects such as mathematics and physics are included with the aim of giving the student a broad moral dimension. The principal qualifications for becoming a mullah ('preacher') are a thorough versing in the Koran, the 'hadiths' (the traditions of the Prophet which provide vital precedents for Moslem comportment) and 'fiqh' (law). Throughout Iran there are some 180,000 such mullahs, roughly one for every 200 persons in the population.<sup>34</sup> Their chief function is to preach in the mosques and to perform basic religious duties relating to birth, death and marriage. Those who carry their studies further to the extent of memorising the

entire Koran acquire the title 'hafez' (the memoriser). There are at least 100,000 such persons. Above them are those who through their superior learning acquire the title 'hojjat' (vicar). To achieve such a ranking a person must be able to recall some 300,000 'hadiths'.

It is from the ranks of these people that persons can qualify for the certificate of 'ijtihād' (interpretation). This effectively entitles a person to pass judgement not merely on religious affairs but also on day-to-day events. The holder of such a certificate is called 'mujtahed'. From this loose hierarchy there emerges a small group of especially learned and respected clergy who by a form of popular acclaim acquire the title 'ayatollah' and whose number could vary between six and ten although there is no limit. These are considered holy men and although their lifestyles may be ascetic they do not live in isolation and the majority are married with families.

Historically this religious leadership had displayed considerable powers of persuasion and popular mobilisation. The revocation of an unpopular tobacco concession granted in 1891 to the British was achieved largely due to the urgings of the religious leadership for people not to smoke in protest — a call which was vigorously observed.<sup>35</sup> They were also in the forefront in pressing for an end to the Qajar régime and in backing the constitutional movement at the turn of the century. The Constitution itself was in many respects a landmark for the Shiia clergy. In 1906 the majority supported the concept of a constitutional monarchy that was Shiia Moslem, reserved the key posts of state for Moslems and ensured that Islamic principles would be preserved. To safeguard these principles, there was a council of five religious elders.<sup>36</sup> The formal acceptance of this Constitution was taken as evidence of the essentially progressive nature of Shiism.

### **The Khomeini Phenomenon**

A minority of the clergy never accepted the Constitution, believing that the energies of the reformists at the turn of the century should not have concentrated on modelling Iranian government on imported Western-style systems. These clergy favoured more the establishment of a type of theocracy. This schism within the clergy was not properly resolved. Rather, when Reza Shah started secularising Iran and harassing the clergy, the issue was blurred by a closing of ranks. It began to surface again in the late 1930s and early 40s when a young clergyman, Ruhollah Khomeini, began to attack the Pahlavis.

Khomeini, born in April 1900 at Khomein near Isfahan, had strong religious antecedents. Both his own father and maternal grandfather

had been prominent religious figures, while his elder brother became an ayatollah (see Appendix C). He first studied under the latter, then moved to Isfahan, then to Arak before settling in the holy city of Qom. Here he quickly earned a reputation so that even before he was 30 his philosophical teachings attracted a keen following among seminary students. He refused to see Islam in a narrow religious context but regarded it as an all-embracing moral force. In 1941 he wrote a book strongly attacking Reza Shah – the beginning of a sustained attack on the monarchy and Pahlavis. His writings appeared to be strongly influenced by nationalistic and moral considerations. Seeing Iran increasingly dominated by Britain and Russia and witnessing the changes wrought on society during the Second World War, he determined to free Iran from all foreign influence. His views have been remarkably consistent, his sole solution for Iran being an Islamic republic.<sup>37</sup>

Like several other of the clergy, suspicious of Mossadegh's ties with the Tudeh Party, Khomeini took his distance from the National Front during the 1953 oil nationalisation. The overthrow of Mossadegh left Khomeini as one of the leading opposition figures and by 1962 he had established himself as a formidable presence, as well as one of Iran's leading ayatollahs. He opposed the Shah's proposals for land reform and the emancipation of women – the two pillars of the White Revolution – at two levels (see Chapter 4). At one level he contested the legality of the Pahlavi dynasty and its prerogative to introduce such far reaching reforms. At another he was challenging the régime which he felt was using populist reform to weaken the traditional power and authority of the clergy. The other clergy did not really share his personalised crusade against the Pahlavis and the monarchy, but they supported his concern that traditional areas of authority were being eroded as the modern state assumed responsibility for education, birth control, marriage and family laws.

This was why the Ayatollah's arrest in June 1963 provoked such riots. The clergy were fully behind him. Yet once Khomeini had taken up his forced residence in Najaf, Iraq in late 1964, the more moderate clergy were relieved that such an uncompromising figure should be out of the way. Khomeini retained, however, a following in Iran, especially at Qom where seminary students continued to commemorate the riots. From his Iraqi exile he refused to drop his crusade, denouncing the lavish Persepolis celebrations organised by the Shah in 1971 and calling for a boycott of the Rastakhiz Party when it was established in 1975. But it was not until 1977 that the same forces that helped form a broadly united front of religious protest in 1963 began to coalesce again.



### Grievances of the Clergy

Inside Iran the basic bone of contention with the régime of the moderate clergy led by Ayatollah Shariat-Maderi was the increasingly ambivalent role of religion. The Shah exploited religion when it suited him and ignored it when it contradicted development needs. To this were added a host of major and minor irritants. The loss of land owned by the mosques as a result of Land Reform remained a nagging sore — though not as great as some would contend since compensation had been paid and important religious endowments at Meshed and Qom had been retained. A greater complaint was the Shah's scheme to redevelop the Holy Shrine at Meshed which involved the destruction of large segments of the old city. It was a classic instance of something being imposed from on high, wholly unaware of local opinion. The scheme, and the Shah's close identification with it, was so unpopular that bulldozers and construction equipment was frequently bombed or sabotaged.<sup>38</sup> A more significant, and gratuitous, affront to the religious community was the imposition of the monarchy calendar in 1976. This helped convince some of the moderate clergy that the Shah was bent on destroying the Islamic roots of Iran.

There was also a groundswell of discontent over the Shah's efforts to cow the clergy. Dissident voices inside Iran like Ayatollah Taleghani and Ayatollah Rouhani were jailed for alleged subversive activities which amounted to no more than challenging the Shah's use of torture and political repression (see Chapter 8). The imprisonment of well-known figures like Ayatollah Taleghani alienated ordinary people far more than tough police handling of the former politicians or the guerillas. Attempts to brand religious persons as political subversives rarely succeeded, even if official propaganda tried to insinuate that these persons were being manipulated by Marxists.<sup>39</sup>

At least three other factors were a source of friction with the clergy.

- (1) *Corruption* This has already been mentioned but it should be stressed that corruption even extended to the management of religious affairs. For instance the chief officials concerned with organising the pilgrimage to Mecca were found guilty in 1976 of taking bribes from pilgrims.<sup>40</sup>
- (2) *The uncertain nature of state financial support* The clergy were constantly concerned that the authorities would use state support for endowments and religious institutions as a means of control. Increased financial costs as a result of the inflation since 1973 had weakened their financial independence.<sup>41</sup>
- (3) *The rise of Bahá'ism.* Bahá'ism is not officially recognised in Iran as it is considered an heretical Moslem sect whose founder was executed in Tabriz in 1851. This

doctrine was based on the idea that certain holy men could be used as a means of communication between the people and the awaited, but hidden, Twelfth Imam.<sup>42</sup> Despite tremendous persecution Bahaiism prospered, earning itself the reputation of a freemasonry that in turn produced much slanderous gossip about Bahai ritual. The traditional clergy feared the growing presence of such 'heretics' in positions of power – whether close to the Shah (like his personal physician) or in business, like the banking magnate, Hozbar Yazdani. It was also held against Hoveida that his father was a Bahai. (One explanation for Khomeini's strong anti-Israeli feeling has been the presence of the Bahai international headquarters in Haifa.)

### **The Power of the Mosque**

All these elements combined to make the religious community inside Iran deeply concerned when they too detected that the Shah's Great Civilisation was fading into the distance and being replaced by popular discontent with no apparent change in the system of government. However, first they were neither militant nor organised, and indeed seemed to have little sense of their own potential power.

Since 1976 when the first group of Iranian pilgrims was allowed to visit Shī'ite shrines in Iraq, Ayatollah Khomeini had been able to keep in closer touch with his supporters inside Iran.<sup>43</sup> Tapes of his sermons attacking the régime were smuggled in with increasing frequency and he was well able to exploit the régime's more tolerant attitude towards mosque pronouncements in mid-1977. His tough rhetoric from outside raised the pitch of religious protest. By the autumn of 1977 the tenor of sermons had changed and in many instances was becoming openly hostile to the Shah, while others called for observance of the Constitution.<sup>44</sup> With Khomeini once again in the public eye, the tempo of protest quickened. The Ayatollah's own determination was hardened by the mysterious death of his son, Mostafa, in Iraq on 23 October, apparently the work of SAVAK.<sup>45</sup> Whether or not this belief was true the authorities certainly began to blame Khomeini for the emerging religious unrest. On 7 January 1978 the leading Persian language daily, *Etelaat*, published an article attacking and slandering Khomeini.<sup>46</sup> It quickly filtered through that the article had been ordered by the Information Minister, Darioush Homayoun, an ambitious apparatchik who had gained the post for his zealous activities in Rastakhiz. The next day in Qom theological students staged a sit-in. This was broken up by security forces, an action which quickly provoked violence with the security forces shooting at the demonstrators. In two days of

disturbances at least 70 persons were killed — the bloodiest incident since 1963.

The spontaneous response to this anti-Khomeini smear campaign, and the government's heavy-handed reaction, transformed the situation. The secular constitutional protest movement lost the initiative to the religious inspired opposition, and the moderate clergy, still in the majority, found themselves being outmanoeuvred by the more radical pro-Khomeini supporters. It is also probably correct to trace the beginnings of the clergy's awareness of their power to this incident at Qom. Moreover that it should come from Qom itself was no accident. This city had refused to allow the attributes of modern Iran to permeate: there are no bars, cinemas, alcohol stores or luxury shops. It is a city whose life revolves round the mosques and the seminaries so that it could claim to have been 'unpolluted' by the Iran of the Pahlavis.

The clergy had a genuine constituency — the conservative mass of the population who were puzzled, confused and bitter about the contradictory policies and broken promises of the Shah. These were people who did not read newspapers and inherently mistrusted government and who saw the mullah and the mosque as the repository of traditional values. At first the clergy's power was used to organise protest funeral processions for those killed in clashes with the security forces. These drew on the Iranian tradition of large, highly emotional mourning processions. At 40-day intervals these continued from January until August 1978. In the meantime, Khomeini, still in Iraq, was transformed into a mythical symbol of the hidden Imam, who one day would return to the Shiia faithful.<sup>47</sup> But if the growing surge of protest to the Shah's régime took an increasingly religious aspect, it was not entirely attributable to the power of the clergy. The Bazaar and the rootless urban proletariat played an important role.

### **The Bazaar**

The Bazaar is the hub of urban life in Iran. It serves not merely as a commercial centre but also as a unique type of community centre. It includes one, or several, mosques, public baths, the old religious schools and numerous tea houses. With so much activity condensed in a relatively small area, communication within the Bazaar is quick and easy, and as a result the Bazaar has traditionally been the main source of political mobilisation. This was true of the constitutional movement at the turn of the century and it was true of the pro-Shah counter demonstrations that ensured his return in 1953.

The independent financial strength of the Bazaar has been a vital

element in its power. Despite the modernisation of the economy, the Bazaar still controls over two-thirds of domestic wholesale trade and accounts for at least 30 per cent of all imports.<sup>44</sup> At the same time through its control of the carpet trade and other export items like nuts and dried fruits, the Bazaar has access to foreign exchange which has not been channelled through the official system. Likewise its traditional money lending and money changing have continued. One unofficial estimate put Bazaari lending in 1976 at 15 per cent of private sector credit.<sup>49</sup>

Precisely because the Bazaar possessed such political power, the Shah sought over the years to diminish it. This was done firstly by building new state schools, new housing and new shopping centres outside the Bazaar, while within the Bazaar streets were 'widened' – a euphemism for imposing a modern grid-iron pattern of roads on the old narrow alleyways (which also made security easier to enforce). Secondly it was done by the modernisation of the banking system and the entry of the state into the distribution system. State corporations were set up to import and distribute basic foodstuffs like wheat, sugar and meat, or to import essential raw materials like cement or steel. These corporations appeared in the wake of the 1973 boom when the subsidies on foodstuffs were increased and the need to manage raw material supplies was paramount. To cut out the Bazaari middlemen in 1976 the government sought to improve the nationwide distribution of foodstuffs, and conceived of building a new market in Tehran, based on London's new Convent Garden.<sup>50</sup> A third move to break the Bazaaris' hold was the price freeze and anti-profiteering campaign initiated in August 1976 (see Chapter 6).

In one sense these moves were an essential part of modernising the economy. For instance the Bazaar merchants had a ruthless stranglehold on the distribution of foodstuffs which was mercilessly exploited at the expense of the poor farmers. However, the Bazaaris interpreted these actions as a calculated attack on the Bazaar as an institution; an impression which the government did nothing to alter. At another level there was no urban renewal in the Bazaar area and no effort to preserve what was valid in Bazaar life – or for that matter to provide an acceptable substitute other than moving into the ranks of the middle class. In many instances the cost of new housing for those anxious to move outside the Bazaar became prohibitive in the wake of the 1973 boom.

The net effect was to establish a fairly clear-cut division between those who could afford to leave and those who were obliged to stay in the Bazaar area. A link, however, was maintained by the older genera-

tion whose new wealth permitted them to buy property outside the Bazaar area yet whose tradition made them work in, and continue to identify with, the Bazaar. The merchants themselves were resentful of the government's challenge to their privileges. The more so when they saw business taken from them in the name of the state now being conducted for the benefit of friends and associates of the Royal Family.<sup>51</sup> An indication of the residual Bazaari attitude towards the Royal Family was the virtual absence of royal portraits in the Bazaar area.<sup>52</sup> Yet such resentment was insufficient to turn the Bazaar merchants into the organisers and financiers of the nationwide anti-Shah protests that emerged in 1978.

Politically the Bazaar has had to be opportunist to survive. However, the bulk of Bazaris could be classified as conservative, devout Moslems and providers of important funds to subsidise religious activity. When, therefore, the mosque sermons became more anti-Shah and open criticism was voiced of the tremendous waste of national assets and the corruption of national character by foreigners, the Bazaar and its leaders were an audience that needed little conversion.

The first concrete indication of a new militant link between the mosque and the merchants was a curious struggle to prevent the Bank Saderat — known as the Bazaris' friend — falling under the control of a Bahai. At the end of 1977, Hozbar Yazdani, the Bahai and self-made millionaire, had acquired a 51 per cent stake in the medium sized Iranians Bank. He was manoeuvring to take over Shahriar Bank (in which several wealthy Iranian families were important shareholders) and had just raised his stake in Saderat, Iran's largest private commercial bank, to 26 per cent. On the orders from the Shiia clergy, the Bazaar merchants organised a campaign of sustained withdrawals. The campaign was so effective that the central bank, Bank Markazi, was obliged to intervene and Yazdani — reportedly on the Shah's orders — sold out his interest in Saderat.<sup>53</sup>

Once demonstrators began getting killed by the armed forces, the Bazaar offered financial support to the victims' families. More important, the Bazaar was willing to finance strikes. At first in May 1978 it was the university students and teachers. Then in the autumn, from September onwards, they helped support large sections of the striking workforce, whether civil servants or oil-workers. There was no precise point when this support transformed from protest into backing for revolutionary change and the overthrow of the Pahlavi dynasty. The most important Bazaar, that of Tehran, was occupied for the first time by tanks on 11 May 1978, but as early as January there had been

shutdown protests. Certainly this was the beginning of increasingly frequent shutdown protest strikes. These protests were made in a different frame of mind from the constitutionalists' and intellectuals'. Theirs was more a gut grievance and openly Islamic, despite the fact that the leading merchants had family with university education that were also part of the constitutionalist movement.

The Tehran Bazaar leadership was provided by a five man Bazaar Merchants Association which existed in defiance of attempts to impose officially sponsored guilds controlled through the Rastakhiz Party. These five men operated through a network of assistants who in turn had their own subgroupings and lesser heads that permeated throughout the Bazaar in a pyramidal structure. This system enabled them to control quickly large groups of persons through a mixture of personal contact and money. It was not difficult to mount a demonstration with hired help.<sup>54</sup> The régime itself had been doing this for years.

Part of the crowd in the early demonstrations was probably paid to participate by the Bazaaris. The boom had created a fertile source of rabble. The thousands of persons who had flocked to the towns from poor conservative backgrounds in the hope of jobs were that section of the urban proletariat that least benefitted from the boom. Often they were single males whose families remained in country villages. They were confronted with an alien culture, often forced to live on building sites or at great expense in slum conditions. Their earnings, which at first seemed high, were frequently illusory, eroded by inflation. From mid-1977 the economic slowdown, combined with efforts to peg rents and house prices, provoked a sharp fall off in construction activity. This meant that quite suddenly the main area of employment open to these unskilled persons began to contract. Many became unemployed, and this unemployment further coincided with a bad year for the agricultural sector. Production of staple products like wheat, barley and rice declined on average 13 per cent in 1977/8 pushing more men to the towns in the hope of higher income. It was this confused, bitter new urban proletariat which imbibed quickest the protest messages coming from the mosques. They had nothing to lose and everything to gain.

The phenomenon of these 'rootless' males, mostly youths, was first evident in Tabriz in February 1978 – the first place where serious anti-Shah riots occurred. The Tabriz riot began as a demonstration of sympathy and solidarity to commemorate those killed in Qom the previous month. However, it rapidly turned into a vehement protest against the Shah. The local Azarbaijani police refused to intervene and troops were called in who responded violently and with their weapons.

With passions running high this transformed the demonstration into a riot, spearheaded by such youths, attacking the symbols of Iran's new wealth (the banks), its political bankruptcy (the headquarters of the Rastakhiz Party), its cultural corruption (the cinemas) and its moral decadence (liquor stores). Mixed in with this was some unashamed looting and a strong element of Azarbaijani resentment at being neglected by the central government. (Since 1946 the Shah had visited Tabriz only once.) Radical students from Tabriz University had also played a part in transforming this demonstration. The toll was some 100 killed and over 600 arrested.<sup>55</sup> This pattern of protest turned riot was to repeat itself throughout Iran's major cities from now on.

### The Role of Women

In the first major outburst of anti-Shah feeling, at Tabriz, women do not seem to have played a prominent role. However, one of the remarkable features of the ensuing demonstrations was the large scale participation of women. The chador, the traditional cloth with which women cover themselves, came to symbolise a form of protest: an identity with Islamic values and a rejection of the modernising process instituted by the Pahlavis.

The chador was first used as a form of political protest inside the universities in 1977. Students began to wear the chador on campus. But the presence of women in the demonstrations probably owed little to the example in the universities. The bulk of the women taking part in the demonstrations were working class and this was an important dynamic in the revolutionary process.<sup>56</sup> Women first appeared in large numbers in the mourning processions for those killed. Because the mourning processions were transformed into political protests, the women became part of this protest. Previously mourning processions had been the sole occasion on which women from conservative backgrounds had been permitted to demonstrate their feelings in public. Therefore the political involvement of women was a natural evolution. Their presence was not discouraged. On the contrary, the demonstrators realised that this unexpected female presence tended to unnerve riot police and the army, making demonstrations more difficult to challenge. It is also possible that the presence of women gave the men greater courage to stand up to the police and army.

This raises an important psychological question in the evolution of the opposition movement. The Shah's system of government depended for its survival on two basic factors: a generalised acceptance of the *status quo* and a deeply inculcated fear of sanctions. The small incidence

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of opposition between 1963 and 1978 -- such fear.<sup>57</sup> Though perfectly human thins are made of. There therefore no barrier of fear was broken.

At a popular level this came after students in Qom in January 1978. From theological students or mullahs, demonstrated the army fearlessly. In other words almost the army was used in riot control there was to face up to it without fear. This meant repression, which worked in 1963, was no the opposition quiet it made them more increased the sense of crusade and martyrdom.

Given this mood it was almost inevitable confrontation with the armed forces. A hint in early August when three days of rioting the imposition of martial law. It was confirmed killings in and around Jaleh Square in Tehran at least 600 persons were killed by soldiers fired. They had gathered in defiance of a ban on public demonstrations. It did not deter a commemorative demonstration more were killed. Indeed the size of the demonstrations increased all the time so that by 9 December thousands of persons taking part in a demonstration that started from the centre of Tehran to the Shahyad monument. Other large demonstrations also occurred in all

The heavy casualties wrought on civilian demonstrators had for the Shah the negative consequence of desertions and junior officers. The armed forces were not used with such large internal security operations. They had been seriously studied. As far back as Tabriz, the army refused to intervene. Fraternisation between the army and the people became evident in early September, and onwards the number of incidents increased where soldiers disobeyed orders, or where soldiers shot their rifles into the crowd. In early December the Governor of Tabriz was killed by a soldier and on 11 December elements of the army mutinied in their Tehran barracks.<sup>60</sup> The religious leaders, Khomeini outside or Shariat-Madari inside, also urged the soldiers not to fire on their fellow countrymen. It was not until that on 18 December in Tabriz 25 soldiers

and permitted demonstrators to take over their armoured personnel carriers.<sup>61</sup>

### Losing a Throne

On 26 January 1978 some 300,000 persons attended a rally in Tehran to mark the 15th anniversary of the Shah's White Revolution. This was the last big demonstration of support for Mohammed Reza Shah. Almost a year later, on 16 January 1979, the Shah left Iran on a forced and indefinite holiday amid scenes of unprecedented rejoicing. Car horns hooted immediately news of his departure was announced and people chanted 'The Shah is gone forever!'<sup>62</sup> He left bound first for Egypt, carrying a casket of Iranian soil. Although he was seen off with all the niceties of the Constitution observed, few of his fellow countrymen believed this pretence.<sup>63</sup> It was the end of an era and almost certainly the close of the Pahlavi dynasty, a dynasty where its only two rulers ended up in exile.<sup>64</sup>

There are at least six main reasons why this dramatic end came with such bewildering speed: (1) *The Shah underestimated the strength of the opposition.* (2) *The concessions made to the opposition were always too late and inadequate.* (3) *All his actions suffered from a lack of credibility.* (4) *His close ties with the US allowed nationalist sentiment to brand him as an American puppet* (5) *His personalised system of government prevented him from distancing himself from any errors committed.* (6) *He became too dependent upon the military for his survival and was subject to their hardline pressure.*

(1) The Shah could be forgiven for underestimating the strength of the opposition. At the onset of 1978 Khomeini was still a voice crying in the wilderness, severely constrained by his relations with the Iraqi Government which was anxious not to offend the Shah. Within Iran, the moderate clergy still looked to Ayatollah Shariat-Maderi as their spiritual leader and he was not advocating the Shah's overthrow. The National Front did not have a popular base and their demands seemed containable. The students were in a state of effervescence but only marginally greater than usual. The mass of the population may not have been happy with the economic slowdown and the failures of the Plan but they appeared loyal. The Americans, in the form of President Carter, had given their full backing to the Shah and reaffirmed that Iran was regarded as a key ally. The Armed Forces were loyal and SAVAK had given ample evidence over the years of its ability to deal with trouble-makers.

of opposition between 1963 and 1978 was due to such acceptance and such fear.<sup>57</sup> Though perfectly human this is not the stuff that revolutions are made of. There therefore came a certain point when this barrier of fear was broken.

At a popular level this came after the killing of the theological students in Qom in January 1978. From then onwards, often led by theological students or mullahs, demonstrators were prepared to face the army fearlessly. In other words almost from the first occasion when the army was used in riot control there was a group of persons willing to face up to it without fear. This meant that the Shah's use of tough repression, which worked in 1963, was no answer. Rather than keeping the opposition quiet it made them more inflamed. The deaths also increased the sense of crusade and martyrdom.<sup>58</sup>

Given this mood it was almost inevitable that there would be a major confrontation with the armed forces. A hint of this occurred at Isfahan in early August when three days of rioting led to over 100 deaths and the imposition of martial law. It was confirmed by the 'Black Friday' killings in and around Jaleh Square in Tehran on 8 September. Then at least 600 persons were killed by soldiers firing on demonstrators who had gathered in defiance of a ban on public meetings.<sup>59</sup> This outcome did not deter a commemorative demonstration a week later when many more were killed. Indeed the size of the demonstrations steadily increased all the time so that by 9 December there were over one million persons taking part in a demonstration that flowed for some four miles from the centre of Tehran to the Shahyad monument by Tehran airport. Other large demonstrations also occurred in all major Iranian cities.

The heavy casualties wrought on civilian demonstrators by the army had for the Shah the negative consequence of demoralising the conscripts and junior officers. The armed forces were not geared to cope with such large internal security operations. Crowd control had not been seriously studied. As far back as Tabriz, ordinary policemen had refused to intervene. Fraternisation between demonstrators and the army became evident in early September, and from 'Black Friday' onwards the number of incidents increased in which junior officers disobeyed orders, or where soldiers shot their officers and joined the crowd. In early December the Governor-General of Hamadan was shot by a soldier and on 11 December elements of the élite Imperial Guard mutinied in their Tehran barracks.<sup>60</sup> The religious leaders, whether Khomeini outside or Shariat-Maderi inside, also began to call upon the soldiers not to fire on their fellow countrymen. These calls bore fruit so that on 18 December in Tabriz 25 soldiers laid down their arms

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Perhaps the Shah was bound to underestimate the strength of the opposition because he suffered from an essential hubris regarding his subjects. Conceiving his relationship with 'The People' as one of father to son, he found it hard, if not impossible, to imagine that his subjects did not love or want him (see Chapter 4). This hubris apart, the Shah's basic underestimation concerned the common strands that brought the opposition together, no matter how loosely. He tended to regard the religious opposition as separate from that of the politicians. The clergy he saw as fundamentally reactionary. Because he believed that the modernisation process had reduced the importance of religion, religious protest was given less significance. This seems the most plausible explanation for his response to the religious element in the protest movement. For in the past 30 years religious extremists had assassinated two of his Prime Ministers, General Razmara (1951) and Hassan Ali Mansur (1965) and had carried out at least two of the assassination attempts on his own life.<sup>65</sup> As late as June 1978 the Shah was telling a visitor that the demonstrations were caused by 'a lot of mullahs pining for the seventh century'.<sup>66</sup> It is also possible that the security services played down the significance of religion, even though they had been systematically suppressing the religious leadership for years. The political opposition, on the other hand, he considered to be radical, exploited from outside, tinged with Communism and therefore anti-Iranian. Given past experience in the Mossadegh period, he feared the latter far more. His view of the importance of the National Front and its allies distorted his vision of the religious movement, and prevented him from seeing the genuinely popular discontent that was massing under a religious banner. He counted too much on the fissiparous nature of the opposition. Yet despite strong personal and ideological differences, the opposition was in agreement on one vital issue: the Shah could no longer rule as an absolute monarch.

(2) Having once underestimated the strength and nature of the opposition, it was not surprising that the reforms he introduced were too little and too late. The first major concession to opposition demands was to dismiss in June 1978 the long time head of SAVAK, General Nassiri. Nassiri, who had presided over SAVAK during the moments of greatest repression, was a symbol of the things that needed changing. But the new head, General Nasser Moghadem, had been a career intelligence officer and was formerly in charge of Army Intelligence. Nassiri meanwhile was not disgraced, merely pensioned off as ambassador to Pakistan like his predecessor in the job, General Pakravan (see Chapter

8). Only six months later on 7 November Nassiri was arrested as a sop to public opinion, along with 12 other prominent personalities that included former Premier Hoveida and Darioush Homayoun (responsible for the anti-Khomeini article in *Etelaat*).<sup>67</sup> Even then there was no effort to reform SAVAK methods, and political prisoners were released grudgingly.<sup>68</sup>

Fourteen months after the Bakhtiar/Sanjabi/Forouhar letter had asked for free elections, the Shah decided to comply. On 5 August, to commemorate Constitution Day, he proposed free elections for June 1979, adding that political parties other than the official Rastakhiz would be allowed to form. The dissidents a year previously had also pointed to the failure of Rastakhiz. Instead of combining this, the Shah's biggest political initiative since the creation of Rastakhiz in 1975, with a substantive gesture, the government remained unchanged. It was only after more violence that he charged the head of the Senate, Jaafar Sharif-Emami, to form a government of national reconciliation at the end of August.

Sharif-Emami was the grandson of a well-known religious figure and himself had contacts with the religious community. He promptly announced the scrapping of the unpopular monarchy calendar voted in two years earlier by parliament on behalf of a 'grateful' nation. He promised support for religious institutions with a newly created ministry to look after religious affairs, he closed casinos and pledged to ensure the freedom of the press. Well intentioned though these moves were, the damage had already been done by the very introduction of the monarchy calendar; the religious community could not be appeased by a special minister who himself was subject to government (Shah) control. As for closing the casinos, little could be done to repair the harm caused by the opening the previous year of Kish Island, the luxury leisure resort built for the Shah and the wealthy Iranian élite and which adorned the pages of international glossy magazines.<sup>69</sup> In these measures no mention was made of clearing up Royal corruption. The anti-Shah feeling evident in Isfahan in early August that led to the imposition of martial law stemmed in part from the way in which his brother Prince Gholam Reza treated the city as his fiefdom. Further no attempt was made to clarify the activities of the suspect Pahlavi Foundation of which the new Premier was the deputy custodian. The Shah himself only took measures to curb the wealth of the Royal Family on 9 January 1979 – less than 10 days before leaving Iran. He ordered all Royal property to be divested to the Pahlavi Foundation, as if this would be a guarantee of propriety.<sup>70</sup>

The Shah's policies had been called in question in June 1977. Not until November 1978 did he concede in any manner that he was personally at fault. This only came when he announced on 6 November the installation of a military government after large parts of Tehran had been sacked and hundreds of Shah portraits been thrown into the streets.<sup>71</sup> In an emotional televised appeal for calm he said:

As your monarch who has taken the oath to protect the national unity and Shiite religion, I once again repeat my oath before the Iranian nation and undertake not to tolerate the past mistakes, unlawful acts, oppression and corruption, but to make up for them . . . I have heard the revolutionary message of you, the people, the Iranian nation. I am the guardian of the constitutional monarchy which is a God-given gift entrusted to the Shah by the people. I guarantee the safeguarding of what has been gained through your sacrifices. I guarantee that in the future the Iranian Government will be divorced from tyranny and oppression, and will be run on the basis of the Constitution and social justice.<sup>72</sup>

The Shah only made a serious effort to contact opposition political figures in October 1978. But even then the conditions they proposed for being co-opted into government were unacceptable to the Shah. The veteran politician, Dr Ali Amini, who as far back as July, 1977 had been suggested as a Premier acceptable to the opposition, declined because he would not be given control of the armed forces. (One of the issues on which he fell out with the Shah as Premier 16 years earlier.) By the time the Shah began discussions with Dr Bakhtiar on the formation of a government, under which the Shah accepted to be a constitutional monarch, the opposition had become too strong. When, therefore, Bakhtiar accepted the Premiership on 30 December it was a post with only nominal authority. By then he had also been deserted by his National Front colleagues who expelled him from the party.

Dr Sanjabi, the leader of the National Front, and co-signatory of the June 1977 letter with Bakhtiar, decided to support Khomeini in mid-November, a move which prompted the Shah to put him in prison. This was a futile gesture since 26 days later Sanjabi had to be released.<sup>73</sup> More generally, the Shah's efforts to placate the rising tide of religious based opposition came too late to permit the moderate clergy from holding any influence over the tough Islamic revolutionary statements coming from Khomeini in Paris.



(3) Over the years Iranians had become so accustomed to mistrust the Shah that whatever he said under these circumstances lacked credibility. How could one accept at face value the Shah's *mea culpa* speech of November? No matter how sincere he was about ruling as a constitutional monarch, it was more than most Iranians could believe that the Shah would change after ruling unconstitutionally since 1953. His record over the years had been to devolve less power and, like his father before him, to refer to a narrowing circle of advisers. Old acquaintances, disgraced politicians and summarily retired generals whom he had not seen for years were suddenly called in during the final months in what was a new act of conciliation. Yet they felt him too removed from reality to make serious and correct decisions. The proposal to hold free elections in June 1978 became an article of his faith. Yet his opponents merely saw it as a manoeuvre to play for time by a man running out of options. A more damning instance of the Shah's lack of credibility with his own people was the fire at the Rex Cinema, in the oil refinery town of Abadan on 19 August 1978. Almost 400 persons died in this fire, trapped inside the cinema behind locked doors. The suspicion was that the Shah's men were responsible, trying to discredit the opposition.<sup>74</sup> This major national disaster could have been caused by accident. No one was prepared to give the Shah the benefit of the doubt.

(4) Since a major grievance of the opposition was the domination of Iran by foreign influences, the monarch's actions were easily tainted with the smear of his being an American or British puppet. The opposition, no matter what complexion, was one in feeling that the Shah's modernisation plans had permitted too many foreigners to work in Iran, had made Iran too dependent upon foreign technology and allowed Iran to be a tool of American imperialism. These sentiments represented the hard-core of anti-Shah feeling and permitted Khomeini to be elevated to a symbol of the monarch's complete antithesis — unsullied by anything foreign: free, independent and utterly Iranian. The deep military involvement of the US in Iran had always been resented. But as the opposition movement obtained momentum this military presence provided ideal propaganda material for the Shah's foes, and a natural rallying point of protest. Isafahan, the first city where martial law was imposed, contained one of the largest American presences in the form of the Bell Helicopter training programme.

It also worked against the Shah that his brother-in-law, Ardeshir Zahedi, was the ambassador to the US. From August 1978 onwards Zahedi spent more time in Tehran than Washington. He was regarded

by the opposition, rightly or wrongly, as Washington's special agent in Iran. Zahedi's uncompromising view towards the opposition (like that of Princess Ashraf in 1953) was backed within the US Administration at least by the National Security adviser, Zbigniew Brzezinski.<sup>75</sup> This therefore associated the US with hardline solutions and the opposition firmly believed it was Washington's intention to keep the Shah in power at all costs. Khomeini and his supporters further resented the triangular relationship that existed between Iran, Israel and the US, which was interpreted as another reason for sustaining the Pahlavis.

The vacillations on policy towards Iran within the US Administration also weakened the Shah's position. The Brzezinski line that the Shah should 'tough it out' was at variance with a more realistic view held by some officials inside the State Department. Because the White House was working largely on CIA assessments, which as late as August 1978 affirmed that Iran was not even in a pre-revolutionary situation, the hardline was accepted. But not without some public agonising. In early January 1979 while the Shah was still hanging on inside Iran, the US considered sending a carrier-led task force to Iranian waters, reminiscent of a similar scheme in December 1971 to support the Pakistan army disintegrating in East Pakistan. Then no sooner had the plan been announced than it was cancelled.<sup>76</sup> These vacillations reinforced the popular impression of the Shah as a US puppet. The Americans themselves sealed the Shah's chances of returning to Iran by being the ones to announce his decision to leave for an indefinite holiday – as though it were an American prompted decision. Secretary of State Cyrus Vance said on 11 January announcing the decision: 'We think it a sound decision and we concur in it.'<sup>77</sup> But not until late January did the Americans concede that Khomeini held the key to Iran's immediate future.<sup>78</sup>

(5) The Shah's highly personalised system of government meant that a challenge to any part of the state was a challenge to him too. The Sanjabi/Bakhtiar/Forouhar letter pointed this out in another way: if he sought to take all the credit, he also had to take the blame. By failing to distance himself from decision-making and by creating no viable independent institutions, he was very vulnerable once the crisis started. For instance, the arrest of Nassiri and Hoveida in November was a charade. These men were the Shah's loyal servants carrying out his policies in his name. The real culprit could not be disguised. Besides, these arrests in particular destroyed the Shah's standing among what remained of his supporters.

His major political experiment during the boom had been the switch

to a one party system. But the Rastakhiz Party had by 1978 become so discredited that it was completely bypassed as a debating forum. Instead it had become just another means of political control. It was eloquent testimony to the value of Rastakhiz that the party was dissolved at the end of September 1978, four months before the Shah left Iran and with a lifespan of only three and a half years.

(6) Once the opposition lost its fear of protest, the Shah's dependence upon the military for his survival was exposed. The large scale use of the army in riot control from May 1978 onwards and the subsequent resort to martial law, then military government in November, were seen as signs of the monarch's growing weakness implicit admission of his unpopularity. Equally serious, the Shah became powerless to control the actions of the various military governors and martial law administrators throughout the country who interpreted in their own manner the Shah's instructions for dealing with protest. General Gholamli Oveissi commander of the ground forces and martial law administrator in Tehran, was especially zealous in suppressing opposition. The military government itself, headed by General Gholam Reza Azhari, the 61-year-old Chief-of-Staff, was forced on the Shah by his hardline generals and almost certainly against his better judgement. The existence of a military government only served to harden the resolve of Khomeini's supporters and to unify the various opposition groups on a broad anti-Shah ticket. The biggest protest demonstration of all, at the end of the Shii'a holy period of Ashura in early December, occurred during the brief six week military government. In the end it seems it was the Americans as much as the evident failure of military government that persuaded the hardline generals to stand down.<sup>79</sup>

### **The Turning Point**

The military government had neither the wit nor the experience to govern a country in a state of turmoil. Long shielded in a protected world of comfort and privilege which had little contact with civilian Iran, the military had no measure of their adversary, the crowds in the streets. They were no match for the ingenious organisers of such tricks as sticking loudspeakers on rooftops that echoed the sound of tape-recorded gunfire or the splashing of faked blood in ditches, thus further antagonising the population against the military. Moreover like the angry bull, the only real method that the military understood was to charge head on.

But the experiment in military government failed less because of the

welter of street protest than because strikes had paralysed the economy. The military could not get essential services going in six weeks of cajoling and persuasion. If one turning point in the revolution was the loss of fear to protest, the catalyst which made it virtually impossible for the Shah to sustain his throne, was the support to Khomeini of the civil service and workers in key sectors. This support was forthcoming comparatively late in the course of events. The first indications of the labour force turning overtly against the Shah came towards the end of August 1978. But strikes did not gather momentum until mid-September. The first strike in a strategic sector was at the Tehran refinery (9 September). This was followed by workers at the large petrochemical complex at Bandar Shahpour on 18 September. Four days later workers of the national oil company, NIOC, came out on strike at the nerve centre of the oil industry, Ahwaz. The next day the first large bank, Bank Bazargani, was paralysed by strikes in the capital.<sup>80</sup>

Slowly strikes spread throughout the administration and the level of protest extended through all aspects of the vital oil industry. By the end of October oil production had fallen to a daily average of 1.5 million barrels against the daily average of 5.7 million for the year up to 2 October. Generous wage settlements, averaging 12.5 per cent in the private sector and higher in the public sector, did nothing to stem the strikes because the settlements were so blatantly geared to buying off the strikers. Both the National Front inside Iran and Khomeini outside encouraged the strike as a political weapon. By early November, when the Shah resorted to a military government, all public services – transport, telecommunications, customs, ports and fuel supplies – were either paralysed or semi-paralysed. For instance the strikes in the Bank Melli affected import credits; the strikes at customs halted industrial production through lack of raw materials and spares; the cutback in oil production drastically reduced the availability of energy supplies and so went on short time or closed; and worst of all the drying up of oil exports threatened to create foreign exchange problems, for although Iran had begun the autumn with reserves of \$11 billion, its credibility in the eyes of the international community depended upon a stable flow of its oil. It was a bitter commentary that Iranians, whose country was the second leading exporter within OPEC, had to queue to obtain supplies of petrol – or for that matter that the Shah should have boasted in October 1973 of the stability of Iranian crude against the unreliable Arabs.

The military government was pledged to ensure a return to work. Resumption of oil production was, along with restoration of order, its

prime objective. Instead of returning to work, economic life ground further to a standstill. Once the labour force in the strategic sectors decided to throw in their lot with the opposition, these workers had a vested interest in ensuring that the Shah was forced to leave. The military did not have the capacity to man countrywide the paralysed power, transportation and communication systems. They were virtually powerless. That this was obvious to most thinking Iranians was underlined by capital fleeing abroad. So much capital was leaving the country that by mid-November the authorities were obliged to impose foreign exchange controls. Meanwhile the rial was being heavily discounted in black market trading for foreign currency.<sup>81</sup>

There were several other circumstantial factors that played a vital part in the Shah's removal. Firstly the Sharif Emami government did attempt to be more liberal. This liberalisation permitted the press to taste a freedom it had never before experienced. The public therefore became much better informed of what was happening, the nature and scale of the opposition. The tales of torture inside prisons from released political prisoners added veracity to what had seemed hearsay. More important, it made the politically aware conscious of the significance of freedom of expression and determined them to fight for it. Attempts by the martial law authorities in Tehran to impose censorship in October were resisted by strikes – the first ever in a previously obedient press.

A number of exiled figures, especially members of the Confederation, took advantage of this liberalisation under Sharif Emami to return. They joined the ranks of a small group who had already entered the country clandestinely earlier in the year.<sup>82</sup> This stiffened the organisation of the opposition which by now was finding it much easier to operate because the security services were so stretched. In turn this led to a resurgence of guerilla activity, guns having been brought in secretly via the Gulf or across the Afghan border. In September the Fedayeen staged an attack on the military in Tabriz and the next month they killed the Meshed police chief. The guerillas also began to participate in the demonstrations and their following increased with their higher profile, the availability of weapons and their strong identification with the Palestinian resistance movement. The return of exiled opposition also tended to polarise groups within the opposition. Already pro-Khomeini supporters were beginning to establish a network of country-wide committees, usually run by mullahs, who were not always to the taste of the Marxists.

Then, Khomeini's move from Iraq to France in mid-October was

enormously fortuitous. Since the autumn of 1977 his supporters had been demanding that the Shah let him return. The Iraqi Government, increasingly embarrassed by the Ayatollah's presence, finally agreed at the end of September to let him leave the country. At first it was thought he would go to Syria, but he sought to leave via Kuwait. The latter refused him entry and he was forced to spend the night at Basra inside Iraq. The Syrians demurred and it was then decided he go to Paris temporarily, with a view to moving to Algeria. This plan never materialised because President Boumedienne was ill in Moscow and no decision was taken on his request. Thus he arrived in France on 9 October, establishing himself just outside Paris at Neaephle-le-Chateau. The French Government for its own reasons decided not to muffle him. At that moment there were few countries with the facilities for international communication and exposure that France offered which would have taken such a decision – perhaps only France.<sup>83</sup>

In France the Ayatollah had a headquarters that could maintain easy contact with his followers at a crucial moment. Khomeini and his advisers exploited this to the full. Khomeini played his hand with skill. He stubbornly refused all compromise either with emissaries from the Shah or from the other members of the opposition, like Sanjabi, who sought to make him less inflexible in his avowed objective of overthrowing the Pahlavis and installing an Islamic republic. By why should he have compromised? His calls for strikes, civil disobedience and military desertion were reverently heard and acted upon. His name was on the lips of the majority of demonstrators. His bushy eyebrows, flowing beard and turbaned head had become more omnipresent in Iran than the Shah's portrait. The crowd was his. Even for a profoundly moral and pious man, it must have been something to savour after 14 years exile and vilification at the hands of the Shah and his servants.

Khomeini's uncompromising stance in France turned the tables on the Shah. The Ayatollah adopted the mantle of the strong Leader (*Farmandeh*). The Shah became a man on the run. The endorsement of Khomeini as *the* alternative power came in the huge mass demonstration held in Tehran on 9 December. During this demonstration a 17-point resolution was presented declaring the Ayatollah to be the leader of the Iranian people. The declaration called upon the people to overthrow the Shah and struggle until this was achieved. From then onwards it was only a matter of time before the Shah either left voluntarily or involuntarily.

### **Bakhtiar and the Final Days**

The delay came partly from fears by the opposition of a military backlash — in the form of a military coup. These were not exaggerated but the military was held in check by a mixture of the Shah's own urgings, American pressure and a certain element of realism among senior officers who saw the possibility of the armed forces disintegrating. The delay also came from the continued disparateness of the opposition and the unwillingness by some of the politicians to accept the vague Islamic platform as a blueprint for the post-Shah period. Finally the delay came from efforts to provide an honourable departure which retained the fiction, if not the hope, of the maintenance of the Pahlavi dynasty.

Dr Bakhtiar's acceptance on 30 December to form a government was a brave but foolhardy act. Abandoned by his colleagues in the National Front who felt they could no longer stand their distance from Khomeini, he was pushed to find a cabinet. Nevertheless he was motivated by a strong sense of patriotism and a belief that, with the Shah honourably out of the way, passions could be cooled enough to lay the basis for a compromise between the heterogeneous but religion dominated — opposition. For a time it seemed this might work. He successfully negotiated the departure of the Shah, coming up with the formula of an extended but indefinite holiday abroad while Iran was presided over by a Regency Council of which he as Premier was a member. He ordered the release of all political prisoners and the dismantlement of the hated SAVAK. He instituted an immediate review of all major contracts and declared his intention to make sweeping cuts in military expenditure and the nuclear programme.

Bakhtiar displayed considerable skill in handling Ayatollah Khomeini. By closing Tehran airport he was able to play for time and postpone Khomeini's return. He even managed to ride out the Ayatollah's triumphant return to Iran on 1 February 1979 which brought almost the entire capital out to greet the exiled religious leader. He refused to resign when Khomeini four days later appointed Mehdi Bazargan, a former opposition colleague, as the 'real' Prime Minister. There was now a legal government in the form of Bakhtiar which theoretically controlled the armed forces and mass media; there also existed a *de facto* government which controlled the crowds and the labour force, had the allegiance of some of the armed forces, and operated its own private TV station covering Tehran. One Government operated out of the Prime Minister's office, the other out of a school house taken over by Khomeini and his supporters in southern Tehran. Bakhtiar managed

to maintain some compromise contact with Bazargan. But he was in an impossible position. He could not control the military's actions towards the demonstrators. The armed forces anyway, deprived of the Shah, were beginning to disintegrate. Despite his courageous record of protest, Bakhtiar was a tainted man; he derived the legitimacy of his office from the Shah (even though parliament freely endorsed him). Khomeini meanwhile branded him as a traitor and this was taken up on the streets. Khomeini had his own reasons for doing this since he was well aware that Bakhtiar was on the left of the National Front and rejected the notion of Iran as a fiercely Islamic republic.

All along an Iranian sense of compromise had held in check the simmering forces of revolution. Suddenly this evaporated. On the evening of 9 February units of the Imperial Guard took it upon themselves to teach a lesson to a group of Air Force cadets stationed in southern Tehran at the second of the capital's two air bases. The barracks were attacked, and to the surprise of the Imperial Guard, the cadets resisted. (The Air Force proved the most pro-Khomeini of the three services.) The action of the Imperial Guard, pledged to shed their last drop of blood to protect the monarchy, symbolised the efforts of the Pahlavi régime trying to hang on at all costs. It was the signal for the townspeople to enter the fray as the Imperial Guard brought in reinforcements. Some were organised, others took advantage of a hand out of weapons. In a highly charged atmosphere this action was the stimulus for a generalised assault on the remaining symbols of Pahlavi authority. Led by the main guerilla groups, the Fedayeen and the Mojahidin, plus numerous mullah-led local committees — some of whom had clearly anticipated such a situation — army barracks, prisons, the television station and parliament were all stormed in a weekend of revolutionary fervour. Bakhtiar's house was fire-bombed and the Ayatollah's portrait was placed on the gates of the Shah's Niavaran Palace. Weapons were everywhere, all of the city's nine armouries had been ransacked.

The military command in an effort at neutrality withdrew their support from Bakhtiar. But the military commanders were really more concerned to preserve what was left of a disintegrating army suffering wholesale desertions by the conscripts that comprised half its manpower. Some pro-Shah loyalists fought on. Throughout, the Shah himself, then in Morocco, remained publicly silent; yet one can scarcely believe that a man who refused to abdicate was an impartial observer.

Neither side had much control of events which were dictated by small groups of armed individuals. Thousands of such groups sprang up



in the name of the Revolution. Old scores were settled, SAVAK agents rounded up, Khomeini's headquarters became a prison and interrogation centre. The Khomeini 'Komiteh' – the occult body largely composed of religious figures that had acted as the decision making body since his return – had been preparing for popular resistance against a military putsch. But the spontaneous infection of revolutionary fervour swamped all organisation. In Tehran and in the major cities throughout Iran that weekend it was the people that went to battle against the old régime, putting the seal on an extraordinary revolution. In Tehran, the newly manned television announced: 'This is the voice of the Revolution. The dictatorship has come to an end.'<sup>84</sup>

Six weeks later on 31 March, the Islamic republic which Khomeini had championed for almost 40 years was overwhelmingly endorsed in a national referendum.<sup>85</sup> The vote was on a simple yes or no to an undefined Islamic republic. This did not seem to matter to ordinary Iranians – only to members of the constitutionalist movement and leftists who feared that one form of dictatorship was being exchanged for another.

## Notes

1. Open letter written on 12 June 1977. Copy supplied to the author by Dr Bakhtiar. It was composed by six persons although only three signed it.
2. Forouhar served in the Labour Ministry under Mossadegh. Sanjabi, of Kurdish descent, represented Iran at the Hague International Court during the oil nationalisation dispute under Mossadegh. Bakhtiar had fought on the Republican side during the Spanish Civil War. He was connected by family ties with the powerful Bakhtiar tribe (whose relatives included the former SAVAK head, General Bakhtiar and Empress Soraya).
3. Comment to the author by Dr Bakhtiar 3 July 1977. Javadi also told the author that he had written other letters to the Shah but this was the longest and most critical.
4. *Financial Times*, 14 July 1977.
5. Information supplied to the author by Hedayat Martine-Daftary, a leading member of this group and joint founder of the Human Rights Commission in Iran (along with Bazargan and Sanjabi). He was a grandson of Mossadegh.
6. *Guardian*, 26 October 1977.
7. This was the view expressed to the author by a number of the then dissidents including Bakhtiar and Martine-Daftary.
8. 'If we had done this a year and a half ago we would have been in Evin [Tehran's main political prison],' Bankhtiar told the author (see above).
9. When the Shah visited Washington from 17-25 November, the official side of the visit was marked by unprecedented clashes between pro- and anti-Shah demonstrators. In Tehran, on New Year's Eve, President Carter went out of his way to reaffirm America's belief in Iran's stability.
10. Targets for such attacks included Bakhtiar and Martine-Daftary – the former had his arm broken, the latter had a bomb placed outside his house as

well as being beaten up.

11. See Index Vol. 7 No. 1 'Iranian Protests' pp. 15-24.

12. The Tudeh Party was formed in 1941 under the umbrella of the evolving Russian presence in Iran as a result of the Anglo-Russian occupation during the Second World War.

13. *Plan and Budget Organisation (PBO). Iran's Fifth Development Plan 1973-78*, revised version, p. 401.

14. *Iran Almanac. Echo of Iran*, Tehran, 1977, p. 411.

15. *Ibid.*, p. 403.

16. There were no official figures for students studying abroad but the unofficial number was thought to be above 40,000.

17. The most radical institution in Iran was the Arayamehr Technical Institute, Tehran.

18. *Iran Almanac*, 1977, p. 122.

19. See Fred Halliday, *Iran, Dictatorship and Development* (London, Pelican Books, 1979), pp. 227-35.

20. *Tehran Journal*, 22 January 1977.

21. *Kayhan International*, 21, 22, 23 January 1977. These were a series of articles on the opposition with clear official inspiration and seeming to be based on SAVAK interrogations of some important recently captured underground figures.

22. These shorthand terms have stuck and became current during their re-emergence in the 9-12 February 1979 convulsion.

23. Halliday, *Iran, Dictatorship and Development*, provides the most detailed analysis of their ideologies but is unable to pin down the philosophy of the Mojahidin (see p. 236).

24. In 1975 a bomb was exploded in the Shah Abbas Hotel, Isfahan, the country's best known tourist hotel. In July 1975 bombs exploded at the British Council and American Information Centre in Meshed.

25. See Halliday, *Iran, Dictatorship and Development*, p. 237.

26. *Kayhan International*, 23 January 1977.

27. This was the view of Western embassies in Tehran.

28. For a digest of the incidents reported in the Iranian press in 1976 see *Iran Almanac*, 1977, p. 122.

29. The number of incidents reported in 1977 dropped. This probably reflected a decline in guerilla activity.

30. Ahmad Farouhy, *L'Iran contre le Chah* (Paris, Editions Jean-Claude Simeon, 1979), p. 164.

31. From June 1975 to November 1976 the author recorded 158 such instances.

32. While the author was in Iran from 1975-7 there was only one instance of a foreign news organisation being contacted by the underground opposition. This was Agence France Presse in July 1976.

33. The religious community also shunned the international press. The first serious effort by the clergy to contact the foreign press was in January 1978.

34. *Financial Times*, 12 December 1978.

35. Denis Wright, *The English among the Persians* (London, Heineman, 1977), p. 107.

36. The 1907 supplement to the Constitution talks of a committee of at least five persons chosen from the 'ulemas'.

37. This information is largely based on research carried out by Paul Balta of *Le Monde*. For Khomeini's birth date see Farouhy, *L'Iran contre le Chah*, p. 160.

38. Information supplied to the author by an expatriate living in Meshed in 1976.

39 *Rastakhiz*, 11 June 1975

40 *Tehran Journal*, 25 November 1976 The administration also made it deliberately expensive to visit Mecca The officially sponsored month long trip cost \$ 2,000 per head Some said this was also designed to prevent pilgrims journeying to Iraq

41 *International Herald Tribune*, 15 January 1979

42 See Roger Stevens, *Land of the Grand Sophy* (London, Methuen, 1971), pp 46-8

43 The March 1975 Irano-Iraq border treaty committed both sides to ease border crossing restrictions The Iraqis eventually conceded an annual quota of 130,000 pilgrims Pressure by Shia pilgrims to visit the Iraqi shrines was said to have been an element behind the Shah accepting to negotiate a border peace with Iraq

44 This was especially noted in Tehran and Qom

45 See Faroughy, *L'Iran contre le Chah*, p 176

46 The author has not seen the original and translations vary According to one version, the text insinuates Khomeini to have been a homosexual in the pay of the British

47 See Stevens, *Land of the Great Sophy*, pp 41-5 for a precise account of this aspect of Shism

48 *Financial Times*, 12 September 1978

49 Estimate given to the author by a Bank Markazi official in September 1976

50 The scheme was drawn up with the aid of Britain's National Freight Corporation

51 The Bazaar campaign against Commerce Minister Mahdavi in 1975 was due to this belief

52 The Bazaar area was the sole public place where the Royal Portrait was not visible

53 *Financial Times*, 12 September 1978

54 *International Herald Tribune*, 15 January 1979

55 Based on information supplied to the author by an expatriate Persian scholar who visited Tabriz as the riots ended

56 See *Iran Almanac*, 1977, pp 422-3

57 Comment to the author by Dr Bakhtiar, 3 July 1977

58 See Stevens, *Land of the Great Sophy*, p 42 Many Iranians emphasise, as a national trait, the tradition of martyrdom

59 *Sunday Times*, supplement 19 November 1978 Roger Cooper counted eight rows of full graves with 14 to 17 plots each and over 20 rows dug and waiting at the main Tehran cemetery

60 *Financial Times*, 14 December 1978

61 *Financial Times*, 19 December 1978

62 *International Herald Tribune*, 17 January 1978

63 The Regency Council was approved under Article 42

64 The Shah maintained up until before the 31 March 1979 referendum that he had not abdicated

65 Comment to the author by a prominent figure in frequent contact with the Shah during this period

66 *Financial Times*, 12 September 1978

67 *Financial Times*, 8 November 1978

68 *International Herald Tribune*, 25 November 1978 On this occasion 267 political prisoners were released

69 *International Herald Tribune*, 28 August 1978

70 *International Herald Tribune*, 10 January 1979

71. Among the buildings attacked on this occasion were the Ministry of Information, the British Embassy, the main international airline offices excluding Air France, the Coca Cola plant (owned by a prominent Bahai, Habib Sabet) and over 400 banks.

72. BBC summary of broadcasts, 7 November 1978 (ME/5962/A/10).

73. Sanjabi was arrested immediately after he returned from seeing Khomeini in Paris on 11 November. He was released 7 December.

74. Tehran cinemas in working-class areas became known sarcastically as Aryamehr's kebab houses.

75. *Newsweek*, 29 January 1979.

76. *Ibid.*

77. *International Herald Tribune*, 14 January 1979.

78. *International Herald Tribune*, 4 January 1979. *Washington Post*, 21 January 1979. The Soviets endorsed Khomeini about the same time, see *Le Monde*, 29 January 1979.

79. The hardline generals were: General Oveissi, Tehran martial law administrator; General Khosrowdad, army air corps commander; General Rabii, air force commander. All three were subsequently executed by Khomeini's secret tribunals.

80. *Behrang*, Iran; *Le Maillon Faible* (Paris, Cedetim, 1979), p. 62.

81. *Financial Times*, 9 November 1978.

82. Among the figures who early on had entered the country clandestinely was the leader of the Kurdish Democratic Party in Iran (KDPI), Dr Abdol Rahman Ghassemlou. He entered in June 1978. See *Le Monde*, 30 March 1979.

83. *Financial Times*, 6 October 1978. The French Government gave Khomeini permission on the understanding that he would not embarrass them *vis-à-vis* the Shah. Yet it also seems that the French were prepared to play the Khomeini card, perhaps to embarrass the US or as a calculated move to be on the inside in the new Iran.

84. *International Herald Tribune*, 11 February 1979. The most detailed account of these three days is in *Le Monde*.

85. The vote was 20.1 million in favour of the republic and 140,966 against, all of the 'no' votes being in Tehran.

# 13 CONCLUSION

Has Iran been able to maximise the opportunity created by the incredible wealth that accrued from the 1973 oil price rises? Even discounting normal errors of judgement, the answer can only be no. The grand vision of Iran on the threshold of the ranks of the world's industrialised nations has faded. In the space of three years a more mundane reality has emerged—a nation rich in financial resources but still poorly endowed with trained manpower and adequate infrastructure, grappling with the problems of development, reliant upon foreign technology and unable to switch away from dependence upon oil to a self-sustaining economy. Despite a greater sense of economic realism since the Shah's overthrow, the political and social forces unleashed by the Khomeini revolution can only complicate the resolution of Iran's development problems.

To pretend that Iran could maximise this opportunity was an illusion in the first place. Money seemed the panacea for Iran's problems of development, when in fact it merely disguised them. More importantly, Iran's system of government was incapable of handling a dynamic development process. Mohammed Reza Shah's system of government, fashioned from the traumatic Mossadegh experience in 1953, was geared to the politics of his own survival. He deliberately fragmented and weakened all individuals and institutions that might challenge him. His own power was buttressed by repression and a refined system of rewards. This system was wholly inadequate to cope with the increasingly complex administration of a country undergoing rapid economic and social change.

A prerequisite of a responsive government in this situation was delegation of authority and the willingness of officials to accept such authority. The Shah could not afford to risk delegation. To a greater or lesser degree this could be said of all authoritarian régimes. However, no authoritarian régime had previously been faced with the kind of challenge that the quadrupling of oil revenues presented a relatively populous country like Iran. The Shah's decision to go for accelerated growth placed a tremendous burden on the administration. The Iranian administration was especially unsuited to this challenge. Conditioned by the fear of sanctions and the hope of financial reward, and mistrustful through deliberately fostered mutual antagonism and job

duplication, officials inevitably opted for the line of least resistance. The easiest orders to execute were the negative ones – the ‘don’t dos’. This was why the anti-profiteering campaign and price control in August 1975 were pursued with such zeal. It was also why the security services invariably overreacted. To step out of line risked losing a job; yet to be too successful was equally risky – success and popularity tended to detract from the authority of the Shah or to undermine the position of interest groups that supported the Shah. At the time of Land Reform in 1962, the Agriculture Minister, Hassan Arsanjani, lost his job because he, not the Shah, was actively trying to make Land Reform work and was getting the credit among the farmers. In February 1976 Commerce Minister Fereidoun Mahdavi was sacked because he upset vested interests when he tried to initiate a thorough reform of distribution, an essential precondition for a better control of prices.

The bureaucratic stupor and mediocrity that such a system encouraged were evident in the creation of the single-party system in 1975. The Shah might have envisaged the Rastkahiz Party as a genuine effort to provide a new form of national dialogue. Yet the party’s effectiveness was doomed from the start because success would have made it an alternative power base to the Shah. Those involved in trying to make it work knew that it could disappear as suddenly as it was conjured up – its life being dependent upon its usefulness to the Shah. Inevitably the party was dragged into the limbo of the state apparatus with no clear function or purpose, to be ceremoniously buried in September 1978.

Another instance of the conflicting interests of the Shah’s own power and those of the State was decentralisation. Every minister, and the Shah himself, talked of the need to decentralise. It was the only way to deal with the complex problems of governing Iran with its widely dispersed centres of population and distinct regional characteristics. Yet the Shah was unwilling to risk loosening the reins of central authority for fear that concessions to, say, regional autonomy might establish a chain reaction that would threaten the throne. Indeed the Shah invariably created overlapping responsibilities and parallel agencies to reinforce the throne.

Senior officials lived in fear of incurring his displeasure. The measures to dampen the over-heated economy in late 1975 had been held up almost nine months because ministers were afraid of losing face and admitting the chaos that had overtaken the march towards the Great Civilisation. The Ports and Shipping Organisation, under pressure to reduce the appalling log-jam in the ports, told the Shah in late 1975 that the situation had improved. This improvement had been achieved

by the simple expedient of redirecting a large number of ships waiting to unload at the main port of Khorramshahr to the neighbouring ports of Bushire and Bandar Shahpour. Similar *legerdemain* was taking place throughout the administration to conceal realities and protect comfortable jobs

As leader, mentor and father figure, the Shah believed his own survival guaranteed the stability of Iran. This made it impossible for him to distinguish his own interests from those of the State. Because he believed he embodied the State, his decisions were justified before God and the crowded galleries of posterity. He provided a repressed stability, which was carefully watched lest his power be challenged. Such stability, while it lasted, could never be properly harnessed for the good of the nation so long as the Shah was obsessed by the possibility of events getting beyond his control. Stability, therefore, became an end in itself, not the launching pad for social and economic development. A striking instance of this was his attitude towards education. Under Mohammed Reza Shah there was considerable success in combatting illiteracy. Yet university education, arguably the nation's most important resource for the future, was sacrificed to his own security. Learning was tolerated only so long as it did not question the régime. Likewise the priority given the cultural regeneration of Iran was nullified by the treatment of writers, artists and intellectuals who were expected to act as servants of state.

At a more general level the Shah refused to countenance debate on key issues affecting the life of the nation, like defence, internal security, the freedom of expression or the priorities of the country's development needs. Partly, it seems, this derived from a belief that as *Farmandeh* (Leader) he should always lead decision making. If not, his stature was compromised in the eyes of the nation. But he also realised that once debate was initiated it became more difficult to impose limits. This was why the flowering of protest inside Iran, in the wake of President Carter's espousal of human rights in 1977, was only tolerated within strict bounds. It was the Shah 'plus democracy', a wholly contradictory situation.

Always the Shah's vision of the future of Iran was made subservient to political expediency. As a result policies were based on sketchy study or were concerned with political effect. Land Reform in 1962, held up as one of the Shah's most positive achievements, was not really intended to improve agricultural production. It was a manoeuvre designed to bring the rural masses into the political spectrum and to curb the influence of the large landlords. Land Reform was a temporary

palliative to the discontented rural peasantry, but only at the cost of parcelling up the bulk of agricultural land into uneconomic holdings, without any significant redistribution of wealth. If anything, the landlords, through the sale of divested land, consolidated their wealth by moving into the purchase of more remunerative urban real estate. Today agriculture still suffers from the consequences of Land Reform, the authorities being faced with the dilemma of consolidating uneconomic parcels of land or subsidising them.

The instruction of July 1975 that large manufacturing companies should divest over a three-year period 49 per cent of their equity to the employees had a similar effect. If such a scheme had been dictated by economic considerations it would have been geared to promote Iran's low industrial productivity. Instead, it was intended to appease the industrial workforce, beginning to feel restive at not receiving a fair share of the nation's new wealth. The scheme was hurried through with minimal preparation. As a result the initial list of 320 eligible companies was quietly dropped within 18 months and the three-year completion date gradually ignored. The scheme was essentially a disguised subsidy to a limited number of persons in the industrial sector (plus some in agriculture) who were already comparatively privileged. The mass of the Iranian labour force was outside the scope of the scheme since they were employed in companies too small to qualify for inclusion; and besides the State could not afford such an extensive subsidy. It was not an exercise in industrial democracy: merely a limited transfer of resources, traded against tranquility on the shop-floor where organised labour remained illegal except within officially sponsored guilds. The effect on industrial management was almost completely unforeseen. At first dismayed by what was seen as government interventionism, the industrialists then realised that they had been presented with a chance to obtain liquidity for assets which normally would have been difficult to sell. This cash, instead of being reinvested, generally found its way abroad.

An equally unflattering view could be taken of the Shah's adoption of ambitious targets in the revised Fifth Plan. In 1973 the economy was already stretched by substantial oil revenues that had fuelled high growth. It needed soundly based manageable growth with the focus first on such essentials as building up the infrastructure of ports and roads and ensuring a proper supply of trained manpower. This, however, would have meant a politically unacceptable delay of three, four or even more years, during which the Iranians would have seen little of their enhanced status, preached aloud by their leader and the international



community alike. The Shah, also, one suspects, wanted to concertina the timespan in which he could create a society where all classes had a sufficiently strong stake in the *status quo* to allow an orderly transfer of power to his son and heir, Crown Prince Reza. (Incidentally the transfer of power to Mohammed Reza Shah had been orderly only because it was dictated and guaranteed by the main outside powers, Britain and the Soviet Union.) In the event the pressures to spend this new wealth immediately proved too great. Here was an unprecedented opportunity to consolidate the Shah's position and that of the Pahlavi dynasty which so longed for a real sense of legitimacy. For the first time the Shah possessed the means to satisfy the aspirations of all segments of society — or so it seemed in 1973. Yet by opting for super-growth, the Shah made the error of overestimating the country's ability to absorb surplus revenues and — more serious — of ignoring the social consequences of profligate spending.

When the grandiose promises of the revised Plan failed to materialise and even turned sour in 1976, the Shah was obliged to look for a new approach to a stable transfer of power. He chose the path of controlled liberalisation in the hope of establishing by degrees an Iranian version of a constitutional monarchy. Probably this was an illusion in the first place; but it might have worked if (a) he had been able to understand and appreciate the political and social frustrations of his subjects; (b) he had retained sufficient credibility to convince his subjects of his sincerity; and (c) he had behaved imaginatively and decisively. Instead his controlled liberalisation in 1977 merely awakened a dormant political movement. This was able to latch onto the *malaise* created by the problems of modernisation and the tremendous strains of trying to do too much too quickly.

His reluctance to let go of the reins of power, combined with his increasing personal isolation, allowed him to misread or ignore the danger signals. The bourgeois constitutionalist movement led by the National Front politicians and human rights activists he saw too often as Communist inspired and containable. The growing groundswell of Islamic fundamentalism he preferred to see as the stirrings of fanatic inconsequential mullahs — forgetting that religious extremists had assassinated two of his Prime Ministers and Khomeini had already proved in 1963 to be the focus of Iran's bloodiest riots.

At the outset the political movement and the majority of the religious-based opposition intended to force him to mend his ways — not to chuck out the Pahlavis and the institution of monarchy. He can therefore only blame himself for responses that were arrogant and ill timed.

He reacted too late, and gestures, which could have placated the opposition, were counter-productive when introduced. The first serious attempt to placate the movement of Islamic-based protest was the creation of the government of national reconciliation under Sharif-Emami at the end of August 1978. This was a good six months too late, for by then the revolutionary philosophy of Khomeini in exile had taken popular root, and a gut anger had been provoked by the Shah's (rightly or wrongly) presumed involvement in the Abadan cinema fire disaster.

By failing to anticipate events, once his *forte*, he put himself in the position from mid-1977 onwards of doing too little too late. The concessions when they came — whether it was the promise in August 1978 for free elections in June 1979 or the commitment to observe Islamic principles in the Sharif-Emami government programme — backfired. His opponents believed that he was no longer in control of events and they had got him on the run. The old adage that an Iranian monarch survived so long as he was successful caught up with him. As Leader, he was expected to rule firmly and decisively. But he hung onto the technocrat Amouzegar, who clearly had little flair for handling popular unrest. Then suddenly from August 1978 onwards he began to oscillate between moderation and repression — Sharif-Emami, then military rule and finally Bakhtiar. He never sought, say in August 1978, arguably the decisive month for the Shah, to call Khomeini's bluff and invite him back to Iran when still exiled in Iraq. He never sought to risk exposing himself in public to win the sympathy of his subjects. To the last he remained remote, shielded by bodyguards (and latterly tanks), projecting himself only via radio and television.

Towards the end the Shah lost the will to govern. At times he was so demoralised he did nothing but spend long periods brooding morosely, often in tears. Ayatollah Khomeini, in contrast, acquired all the attributes of a *Farmandeh*. The key turning point in Khomeini's fortunes was probably not his widening religious appeal but the calculated decision by the key sectors of the Iranian labour force (government employees and oil industry workers) that he was the likely winner of a power struggle, therefore attaching themselves to his Islamic banner. Opportunism played no small part in the overthrow of the Shah.

This is not to deny the significance of religion. Islam provided a common reference point and a fulcrum of protest. But one is tempted to conclude that religion became important through circumstance, capitalising on the Shiia cultural identity. The Shiia practice of

observing a period of 40-day mourning, the fast of ramadam, which fell in the crucial month of August, and the holy days of moharram provided a natural framework within which protest could be maximised. Here Khomeini was a vital catalyst. Speaking to Iranians from outside, untainted by the Pahlavi régime, he had tremendous emotional appeal as a legitimate spokesman of true Iranian values. The revolutionary forces that coalesced in his name were extremely heterogeneous: conservative Islamics, nationalists, dissident capitalists, disaffected intellectuals, Marxist revolutionaries and the frustrated urban proletariat. One group noticeably absent was the rural peasantry - too poor and isolated to play any significant part yet comprising over 40 per cent of the population. Yet the Islamic banner should not disguise the existence of other unifying forces - a profound dislike and mistrust of the Pahlavis (there was nothing stage-managed about the scenes of delirious joy the day the Shah left Iran); and a resurgence of traditional Iranian chauvinism towards foreign influence which the Shah and his reforms came to symbolise. Ultimately it was a nationalist revolution.

In retrospect the collapse of the Shah's régime, the brave but pathetic interregnum of Bakhtiar and the dramatic revolutionary convulsion that saw popular control of Iran in the name of Khomeini on 11/12 February 1979 has an air of inevitability. Because the Shah's administration collapsed so easily, it tends to look less solid with hindsight. Yet the answer is that it was always brittle: only as strong as the Iranians were prepared to let it be.

The ultimate verdict on Mohammed Reza Shah must be that he provoked his own downfall and thereby undermined what he and his father set out to achieve. It is a curious point of history that these two Pahlavi rulers both started off life as commoners and both ended up as exiles. Yet to cast Mohammed Reza Shah as the villain is in one sense misleading. There is nothing to suggest that another leader or group of leaders would have done better or behaved much differently under the circumstances. It would be surprising if the same basic motivations did not apply. Back in 1973 these were preservation of personal power, a concern with prestige, a chauvinistic pride in seeking Iranian solutions and a general impatience with detail.

The Shah's critics decry his authoritarianism but there is scarcely a liberal tradition in Iranian history. A liberal reformist movement at the turn of the century succeeded in establishing a constitution for a western-style democracy. But the two Pahlavis adopted a style of absolute monarchy that ignored the Constitution. Even Mossadegh, in his brief experience of power dismissed Parliament and displayed a

penchant for authoritarian rule. Mossadegh set up a countryside system of security commissions to protect against subversion. Though much less vindictive than the Khomeini committees established throughout Iran during the revolution, there is a certain continuity between them, SAVAK's adaption of these commissions and the revolutionary committees. The two Pahlavis, Mossadegh and Khomeini have shown that individuals or tight leadership cabals formulate policy – the people approve it.

The bulk of those who participated in the revolution did not intend to create a democracy. The crowd at least was willing to put their trust in Khomeini to resolve their problems. The March referendum organised by Khomeini and his supporters did not appeal to the Western-style liberals or leftists in Iran, or indeed to many of the minority Sunni Moslems. But its blind commitment to an undefined Islamic republic undoubtedly reflected this fact of popular trust in Khomeini. The Ayatollah and his associates will have to work to retain this trust. Khomeini may wish to retire from active participation in politics but this will be difficult so long as he remains the supreme arbiter. He himself, by his issuing of edicts like formal imperial firmans and by his vigorous endorsement of revolutionary justice against members of the former régime, has shown that he believes in a firm hand. Moreover the way his headquarters, first in Tehran and then at Qom, were transformed into a type of court, where he received petitioners and dispensed justice, is the continuation of an ancient tradition of Persian rulers. A ruler in Iran can be despotic but not inaccessible.

In many respects the revolutionary overthrow of the Shah has returned Iran to the position inherited by Reza Shah in 1925. The country has to acquire a new identity, this time almost certainly less committed to the Western camp and more non-aligned. The central government has to assert control over a host of regional forces that always existed and now have resurfaced – Kurdish nationalism, Baluch and Turkoman dissidence. Dealing with the dissident tribes and regional ethnic groups was Reza Shah's first task. It was also the first test of revolutionary Iran, having to deal first with fighting in Kurdistan, then in Turkoman and Baluch tribal areas. Of course the situation is much more complex than in 1925. Popular aspirations have been aroused and throughout Iran, the break-up of the Shah's armed forces and security services has created an uncontrolled number of armed groups.

The revolution has created an inherently unstable situation and it will take time to evolve a new equilibrium. The disintegration of the armed forces, the execution or sacking of top officers and the mass

desertion of conscripts, has meant the removal of the central pillar of the former régime. The armed groups, whether loyal to Khomeini or Marxist revolution, cannot fill this gap and can only act as a destabilising force. The coalition of forces that produced the revolution is too disparate to survive. There are inevitable tensions between those who helped make the revolution from outside, basically those who surrounded Khomeini in Iraq and latterly in France, and those who were on the inside. There are other inevitable tensions between the progressive, secular forces and the Islamic fundamentalists who are close to espousing a theocracy. The new rulers of Iran will almost certainly be forced back on the Shah's principal weapon, the establishment of a strong army and police force - even if this masquerades under such a name as the popular militia. Control of this weapon will be the principal source of power struggles. Failure to create such a force will mean a continuation of generalised instability.

The Shah's overthrow was an explicit rejection of the hectic capitalistic model of development that relied heavily on foreign technology and foreign imported skills. There is now scope for a more reasonable model of development that takes account of Iran's real needs. Oil must be the motor of the economy because other resources are slim. Yet this is a finite resource. By halving oil production, the original lifespan of the fields of just passed the turn of the century will be extended. But with a 36 million population Iran has to diversify. Inflation has been such as a result of the 1973-6 boom that industrial products have all but priced themselves out of the market, except where they benefit from low-cost energy like steel and petrochemicals. Unless wages drop and productivity rises, Iran's industrial prospects are not brilliant.

Iran has to live with three other legacies of the boom. Firstly, Iranians have been encouraged by the boom to believe in the idea that the State can take care of everything. The popular euphoria of the revolution has done nothing to dispel this belief, yet the nation's total resources are such that this belief must be disabused. Secondly, the country has been burdened with heavy servicing and maintenance costs due to the wholesale import of advanced equipment. Some, but by no means all of the cost, can be offset by pruning defence spending and the Shah's incredibly ambitious nuclear programme.

The third legacy is that of rural Iran. Oil wealth has concealed the backwardness of rural areas. Rural incomes have undeniably risen but the benefits of higher incomes have been eroded by a corresponding increase in living costs. Moreover the gap between urban and rural incomes has widened, not narrowed, as a result of the revised Plan

spending. The boom also placed a tremendous strain on urban facilities which cannot be quickly or easily alleviated and which will remain a major source of social tension. At the same time the boom encouraged a pattern of food consumption that Iranian agriculture was incapable of satisfying. As a result foodstuffs have become a heavy burden on foreign exchange. Khomeini and his associates rightly emphasise the need for agricultural self-sufficiency and greater attention to rural development. Khomeini has the means to mobilise the rural masses more than any other Iranian leader in history. It will be a tragedy if this advantage is not seized.

## APPENDIX A: PAHLAVI FOUNDATION: KNOWN ASSETS IN DECEMBER 1977

### A. Banks/Investment Companies

1. *Bank Omran* (100%). Capital Rs5bn (\$70m). Total assets Rs75bn. Investments Rs1.4bn. Dividend Rs30 m. Commercial bank.
2. *Bank Iranshahr* (30%). Capital Rs3bn (\$42m). Total assets Rs38bn. Commercial bank.
3. *Development and Industrial Bank of Iran* (1.3%). Capital Rs3bn (\$42m). Share valued by PF at \$700,000. Development bank.
4. *Bank Etebarat* (2%). Held 400 of original 20,000 shares. Capital Rs1.5bn (\$21m). Commercial bank.
5. *Irano-British Bank* (1%). Held 200 of original 20,000 shares. Widely believed to have purchased much larger stake subsequently. Capital Rs1bn (\$14m). Commercial bank.
6. *Industrial Guarantee Fund* (?%). Capital \$11m. Industrial finance for small companies.
7. *Omran Trinwall* (30% held by Bank Omran). Capital Rs12m (\$170,000). Investment in Iran and overseas.
8. *Iranshahr Finance* (21% held through stake in Bank Iranshahr). Capital Rs70m (\$980,000). Commodities and securities trading.
9. *First National Wisconsin Milwaukee, USA* (5%). Held by Bank Omran.
10. *Hispan-Iran* (11%). Capital \$150,000. Spanish-Iranian service and investment group.

### B. Insurance

1. *Bimeh Melli* (80%). This stake is now believed greater. Capital Rs150m (\$2m). Total premiums approximately Rs800m.

### C. Property

#### *Hotels (all 100%)*

1. *Tehran area: Darband; Hilton; Evin; Vanak.*
2. *Caspian area: Babolsar New Hotel + motel; Chalus Old and New Hotels; Hyatt; Ramsar Old and New Hotels.*
3. *Other: Khorramshahr Hotel; Shiraz Hotel; Meshed Hotel; Bozali*

*Hotel, Hamadan; Obali Hotel; Shahi Hotel; Abali Amul Hotel; Sakhtsar New Motel; Gachsar Old and New Hotel.*

### *Tourist Complexes/Leisure*

1. Namak-Abroud complex near Chalus (100%).
2. *Villas at Ramsar* (1) and *Babolsar* (1) (100%).
3. Casinos. *Ramsar Casino and Club*; Hyatt; Kish Island (100%).
4. Kish Island Development Board (20% held through Bank Omran): 3 hotels, casino and 1,000 villas when complete.
5. *Mehrabad Airport*, Tehran: restaurant (25%).

### *Residential/Commercial*

1. Sherkat Shahr Aram (0.4%). Satellite town development project.
2. Bungalow project near Niavaran, Tehran (219 units) (100%).
3. Vanak Tower Block (three block multi-storey residential and shopping project), Tehran (100%).
4. Farahzad Development Project (30% held by Bank Omran). Construction of 25,000 upper-income units.
5. Levittshahr (?%). Involvement in \$500m new town via Bank Omran.

### *International*

1. Pahlavi Foundation Building, Fifth Avenue/52nd St., New York (100%). Book value 1975 \$14.5m.
2. Canal Street Project, New Orleans (?%). Bank Omran in neighbourhood development scheme, believed on 50/50 basis with local interests.

## **D. Industrial Holdings**

### *Building Materials*

1. *Tehran Cement* (25%). Capital Rs1.15bn (\$16m). Cement.
2. *Fars and Khuzestan Cement* (?%, believed substantial). Capital Rs3.5bn (\$49m). Cement.
3. *Iranit* (30%). Capital Rs? Cement imports, asbestos, cast-iron fittings.
4. Panasuz. Stake held though Fars and Khuzestan Cement (95%). Production of asbestos material.
5. Montex (35%). Capital Rs12m (\$170,000). Liquidated June 1977. Steel structures.
6. Sangvareh Mining (40%). Capital Rs? Provision of building



materials from quarries.

### *Automotive Industry*

1. *GM Iran* (10%). Capital Rs1.5bn (\$21m). Assembly of saloon cars and trucks.
2. *B.F. Goodrich Iran* (9.5%). Stake believed to have expanded to around 45% as a result of divestiture of 58% share of US parent company. Capital Rs917m (\$13m). Tyre manufacture.
3. *Hepco* (10% held by Bank Omran). The Foundation is believed to hold an undisclosed 45% stake. Capital Rs?. Joint venture with IDRO for road-making equipment.

### *Miscellaneous*

1. *National Cash Register Iran* (38%). Capital Rs?. Office accounting machinery.
2. *Sedco* (5%). Capital Rs?. Drilling operations.
3. *Iran Skin & Leather Company* (100%). Capital Rs?. Tanneries.
4. *Khorrasan Skin and Lather Company* (100%). Capital Rs?. Tanneries.
5. *Daru Pakhsh Pharmaceuticals* (? %). Jointly owned by Foundation and the Imperial Organisation of Social Service (IOSS). Capital Rs?. Largest pharmaceutical producer in Iran.
6. *Union Carbide (Puerto Rico)* (20%). Capital Rs?. Batteries.

### **E. Printing/Publishing**

1. *Bunghah Tarjomeh va Nashr Ketab* (book distribution and Translation Company (100%). Capital Rs?. Translation of foreign classics, Persian reprints.
2. *The 25th Shahrivar Printing House* (? %). Stake held through involvement in the IOSS. Capital Rs?. Printing of all school textbooks used in Iran.
3. *Danesh Now Printing and Publishing Company* (? %). Capital Rs100m (\$1.4m). Books for the young.

### **F. Agribusiness**

1. *Ahwaz Sugar Beet Factory* (16%). Capital Rs?. Sugar mill and refinery.
2. *Kermanshah Sugar Factory* (0.4%). Capital Rs607m (\$8.5m). Sugar-beet processing.
3. *Hamedan Sugar Factory* (1%). Capital Rs?. Sugar mill and refinery.

4. *Kooar Shiraz Sugar Factory* (1.7%). Capital Rs? Sugar mill and refinery.
5. *Farinan Sugar Factory* (? %). Capital Rs? Sugar mill and refinery.
6. *Ghahestan Birjand Sugar Factory* (? %). Capital Rs? Sugar mill and refinery.
7. Ziaran Meat Production (20%). Capital Rs400m (\$5.6m). Meat production and processing operational 1978.
8. Iran Shellcott (10%). Capital Rs500m (\$7m). Agribusiness in Khuzestan. In process of being restructured.
9. International Agribusiness Company of Iran (2%). Capital Rs441m (\$6.2m). Agribusiness in Khuzestan.
10. Agricultural and Industrial Company of Khuzestan (10%). Capital Rs700m (\$9.8m). Agribusiness in Khuzestan.

## Notes

1. This list is not complete. Some of these holdings may have increased or been reduced. Very few of the companies are publicly quoted. All information is based on either access to the original list of assets; or companies that have admitted having shares in the Foundation. The companies in italics constitute the original known assets.
2. Not included is the National Iranian Tanker Company sold to NIOC in 1970 or the land/assets of some 73 nurseries and orphanages.
3. Income from Crown Lands handed to the Foundation is not included but mainly comprises loans repaid to Bank Omran.

## APPENDIX B: OPEN LETTER TO MOHAMMED REZA SHAH, 12 JUNE 1977

To His Imperial Majesty,<sup>1</sup>

No one in Parliament, the Judiciary or the Administration is capable of listening to this statement since they possess no authority or responsibility, but merely observe the Royal Will. All the nation's affairs are discharged through Imperial writs. Everything from the election of representatives of the people down to drafting legislation, the establishment of political parties and the conduct of a revolution is the prerogative of the person of your Majesty who has arrogated all authority, credit and honour — but also all responsibility. Despite the risks involved, the mounting political, economic and social problems of which every Iranian is now aware make it our national duty, as well as our duty before God, to issue this statement.

We have taken this initiative at a moment when the country has come to the brink of a precipice. Progress has ground to a halt. Essential requirements, especially foodstuffs and housing, have been affected by unprecedented scarcity and inflation, the country's agriculture and animal husbandry are in a parlous state, the imbalance in trade has resulted in an alarming gap between imports and exports.<sup>2</sup> Our God-given heritage, oil, has been seriously dissipated. Plans made in the guise of reform or revolution have failed.<sup>3</sup> Worst of all, human rights and individual freedoms are being disregarded. The principles of the Constitution and the Universal Declaration of Human Rights have been violated on an unprecedented scale. Police brutality has reached a peak. At the same time the prevalence of corruption, immorality and obsequiousness have undermined national dignity.

The result of this state of affairs — accompanied as it is by endless promises and claims, exaggerations and propaganda, imposed celebrations and shows — is a general disaffection and despair that encourages both people and capital to leave the country, that encourages the youth to rebel. The younger generation are more than willing to embark upon actions labelled by the ruling apparatus as terrorism and treason which lead to prison, torture and death because they consider such acts as heroism and self-sacrifice.

Such abnormalities in the state of the nation must inevitably be attributed to the manner in which the country is governed. Government

**Notes**

1. This is based upon a translation from the original. It was the first strong open criticism in Iran since 1963. The letter was sent to the Shah but some 20,000 copies were circulated privately.
2. This refers to non-oil trade.
3. The failures singled out are Land Reform and the White Revolution of 1962.
4. The Constitution was approved in 1906, its Supplement in 1907.
5. This refers to Article 26 and Article 44 respectively of the 1907 Supplemental Law.
6. This is a paraphrase of an address by the Shah to Harvard University on 13 June 1968.
7. The signatories deliberately avoided using the newly established solar calendar based on the establishment of the Persian Empire.
8. Bakhtiar became Prime Minister on 30 December 1978 and presided over the Shah's departure. Sanjabi became Foreign Minister and Forouhar, Labour Minister in the Bazargan Government that replaced Bakhtiar on 12 February 1979 in the wake of the Islamic revolution.

## APPENDIX C: BIOGRAPHICAL NOTE ON AYATOLLAH RUHOLLAH KHOMEINI

*Antecedents* Maternal grandfather, Imam Mirza Ahmad, a prominent religious figure. Both father, Mostafa Moussavi, and eldest brother, Passadiehl, considered ayatollahs.

*Birth* Born 9 April 1900 at Khomein, near Isfahan.

*Education* Traditional religious: studies under brother, Passadiehl, then in seminaries at Isfahan, Arak and Qom. Loses mother aged 15.

*Career* 1927: Settles in Qom, begins teaching philosophy. Attracts attention for teachings and moral example; shows hostility to Reza Shah's campaign to reduce role of clergy. 1941: Publishes *Discovery of Secrets* — vehement attack on Pahlavi family calling for end to foreign domination of Iran. 1953: Takes distance from Mossadegh, critical of Tudeh (Communist) Party influence. 1953-60: Demonstrates increased opposition to monarchy and Iranian dependence on US. 1961: Aya-tollah Boujerdi dies. Khomeini becomes main contender for Shiite leadership. 1962: Briefly arrested for attacking plans to enfranchise women and Local Council Election Bill. 1963: (January) Briefly arrested for pamphlet attacking Land Reform. (4 June) Rearrested, major riots follow. (4 August) Released on understanding not to interfere in politics. (October) In custody again for ordering boycott of parliamentary elections. 1964: (May) Released on new understanding. (October) Attacks bill allowing diplomatic immunity to US military personnel and US \$200 million loan. Arrested and exiled to Turkey. Turkish student protests lead to transfer to Najaf, Iraq. 1965-71: Continues to write anti-Shah pamphlets from exile; tape-recorded sermons smuggled into Iran. 1971: (April) Calls for protests against Persepolis ceremonies celebrating 2,500 years of monarchy. Tehran University students and Bazaar observe token fast. 1975: (April) Calls for boycott of newly established single-party system. 1976: Iranian pilgrims visit Najaf after Iran/Iraq treaty, contact with supporters in Iran easier. 1977: Attacks on monarchy more frequent and virulent. (October) Son, Mostafa, killed in mysterious circumstances at Kerbala, Iraq. (December) Tehran students demand his return. 1978: (January) Riots

by supporters after *Etelaat* article slandering him. Becomes main focus of religious protest. (9 October) Arrives in France. Begins new campaign for Shah's overthrow. (9 December) Mass Tehran demonstration endorses 17-point resolution declaring him leader of Iran People and the Revolution. 1979: (1 February) Returns in triumph to Tehran, establishes alternative government in a school. (5 February) Appoints Mehdi Bazargan as 'Prime Minister'. (12 February) Collapse of Bakhtiar Government confirms him *de facto* leader of Iran. (31 March) Referendum approves establishment of Islamic republic.

## APPENDIX D

### Revenue and Expenditure during Fifth Plan (dollars billion)

|                     | 1973/4 | 1974/5 | 1975/6 | 1976/7 | 1977/8 | Total<br>(Actual) | %   | Projected<br>in Plan | %   |
|---------------------|--------|--------|--------|--------|--------|-------------------|-----|----------------------|-----|
| <b>Revenues</b>     |        |        |        |        |        |                   |     |                      |     |
| 1. Oil and gas      | 4.5    | 17.1   | 17.7   | 20.2   | 21.2   | 80.7              | 80  | 94.0                 | 82  |
| 2. Taxes            | 1.9    | 2.3    | 3.8    | 4.9    | 6.3    | 19.2              | 18  | 17.2                 | 15  |
| 3. Other            | 0.3    | 0.4    | 0.9    | 1.0    | 1.3    | 3.9               | 2   | 3.5                  | 3   |
| Total               | 6.7    | 19.8   | 22.3   | 26.1   | 28.8   | 104.8             | 100 | 114.7                | 100 |
| <b>Expenditures</b> |        |        |        |        |        |                   |     |                      |     |
| 1. Current          | 4.5    | 10.3   | 13.2   | 14.9   | 17.3   | 60.2              | 56  | 48.1                 | 41  |
| 2. Capital          | 2.3    | 4.9    | 7.5    | 8.4    | 13.1   | 36.2              | 34  | 40.4                 | 34  |
| 3. Other*           | —      | 1.7    | 1.6    | 3.3    | 3.9    | 10.5              | 10  | 29.0                 | 25  |
| Total               | 6.8    | 16.9   | 22.3   | 26.6   | 34.3   | 106.9             | 100 | 117.6                | 100 |
| Surplus/deficit     | - 0.1  | 2.9    | —      | -0.5   | -5.5   | -3.2              |     | -2.9                 |     |

Sources: Compiled from Bank Markazi annual report 1977/8, pp. 138-9 and *Plan and Budget Organisation, Revised Plan 1973-78*, p. 41. All conversions have been made on the basis of \$ = Rs 70.50. This uniform exchange rate explains the difference between this and some other tables bearing year to year rates. All figures are rounded.

\* This includes payments by special authority, foreign investment, loans and grants.

# APPENDIX E

## Non-military Main Imports during Fifth Plan (dollars million)

|                              | 1973/4 | 1974/5 | 1975/6 | 1976/7 | 1977/8 | average increase<br>% |
|------------------------------|--------|--------|--------|--------|--------|-----------------------|
| 1. Foodstuffs                | 327    | 852    | 1,555  | 1,232  | 1,486  | 48.5                  |
| 2. Beverages/tobacco         | 5      | 13     | 26     | 77     | 130    | 100.6                 |
| 3. Raw materials             | 189    | 344    | 369    | 365    | 437    | 29.5                  |
| 4. Vegetable oils            | 61     | 240    | 291    | 137    | 164    | 22.7                  |
| 5. Chemical products         | 356    | 649    | 835    | 858    | 1,003  | 35.2                  |
| 6. Paper/cardboard           | 87     | 169    | 142    | 168    | 210    | 28.5                  |
| 7. Textiles                  | 225    | 305    | 305    | 537    | 658    | 37.7                  |
| 8. Non-ferrous metals        | 103    | 104    | 242    | 388    | 609    | 78.1                  |
| 9. Iron/steel                | 583    | 1,155  | 1,845  | 1,771  | 1,405  | 34.3                  |
| 10. Machinery (non-electric) | 804    | 1,137  | 2,539  | 3,219  | 3,396  | 41.3                  |
| 11. Machine tools            | 311    | 409    | 801    | 981    | 1,327  | 38.2                  |
| 12. Vehicles                 | 288    | 563    | 1,633  | 1,326  | 1,340  | 41.8                  |
| Total imports                | 3,737  | 6,614  | 11,696 | 12,766 | 14,124 | 40.6                  |

Sources. Foreign Trade Statistics of Iran/Bank Markazi.



# APPENDIX F

## Non-oil Exports during Fifth Plan (dollars million)

|                             | 1973/4 | 1974/5 | 1975/6 | 1976/7 | 1977/8 |
|-----------------------------|--------|--------|--------|--------|--------|
| <b>A. Traditional goods</b> |        |        |        |        |        |
| (i) carpets                 | 505.1  | 385.6  | 413.7  | 377.1  | 378.4  |
| (ii) cotton                 | 108.0  | 119.1  | 105.6  | 94.5   | 114.5  |
| (iii) fresh/dried fruits    | 150.1  | 85.3   | 136.2  | 122.3  | 92.6   |
| (iv) hides                  | 94.6   | 71.8   | 74.7   | 70.3   | 90.4   |
| (v) caviar                  | 28.8   | 27.8   | 28.3   | 31.9   | 39.9   |
|                             | 8.0    | 7.4    | 7.2    | 0.5    | 1.1    |
| <b>B. Minerals/ores</b>     | 23.9   | 32.8   | 32.8   | 10.2   | 1.1    |
| <b>C. Industrial goods</b>  | 105.7  | 163.1  | 145.7  | 152.6  | 143.7  |
| (i) detergents              | 5.8    | 12.1   | 22.1   | 19.3   | 16.1   |
| (ii) chemicals              | 16.0   | 22.0   | 18.5   | 31.6   | 12.1   |
| (iii) clothing/textiles     | 28.5   | 44.2   | 28.7   | 26.7   | 23.9   |
| (iv) vehicles               | 11.7   | 21.2   | 28.3   | 24.2   | 9.9    |
| (v) shoes                   | 11.0   | 7.4    | 9.6    | 5.7    | 8.1    |
| <b>Total A, B, C</b>        | 643.7  | 581.5  | 592.2  | 539.9  | 523.2  |

Sources: Foreign Trade Statistics of Iran/Bank Markazi.

# APPENDIX G

## Literacy before and during Fifth Plan

|  | 1972/3 | 1973/4 | 1974/5 | 1975/6 | 1976/7 | 1977/8 |
|--|--------|--------|--------|--------|--------|--------|
| 1. Enrolment as % of eligible population |        |        |        |        |        |        |
| (a) urban                                | 83.5   | 84.7   | 83.2   | 89.2   | 95.5   | 94.8   |
| (b) rural                                | 39.7   | 41.7   | 44.8   | 53.6   | 58.0   | 61.9   |
| Total                                    | 57.9   | 59.4   | 60.8   | 68.6   | 73.1   | 76.0   |
| 2. Literacy in 6-29 year age group       |        |        |        |        |        |        |
| (a) urban                                | 77.6   | 78.5   | 79.4   | 80.2   | 81.1   | 81.9   |
| (b) rural                                | 30.5   | 34.0   | 37.5   | 41.0   | 44.5   | 48.0   |
| Total                                    | 50.9   | 53.9   | 56.8   | 59.8   | 62.7   | 65.6   |

Sources: Iran Centre of Statistics/Ministry of Education.

# INDEX

- Abadan refinery 35, 119-20  
 Abdul Azim, Shrine of Shah 23  
 Agha Mohammed Khan 23  
 Agricultural Development Bank 161  
 agriculture.  
     ILO mission (1972) 115  
     10-point programme of 116  
     national state of 38-43  
         climatic limitations 38  
         geographic limitations 38-9  
         land available 39  
         *qanat* system 39  
         opium poppy 39-40  
         tribal livestock 40  
         land reforms *see* land reform  
         'pole' system (1976) 42-3  
 Ahmad, Sultan Shah 54  
 Ahmad Khayami 47-8  
 Ahmad Qavam (Prime Minister)  
     62, 63  
 Ahmad Zakı Yamani, Sheikh 16, 100  
 Ahwaz City and sugar factories at  
     27, 107, 121, 163, 257  
 aircraft purchases 173-5, 185, 187  
 air force base 27  
 Alam, Assadollah 141  
 Alborz Mountains 25, 32  
 Amini, Dr Ali 69, 70, 133, 232  
 Amir Hushang Davalou 67  
 Amouzegar, Jamshid 134, 137, 138,  
     204, 212, 250  
 Anglo-Iranian Company (1933)  
     34-5, 38, 65, 66  
 Anglo-Persian Oil Company 34  
     *after* 1933 *see* Anglo-Iranian Oil  
     Company  
     *after* 1957 *see* National Iranian  
     Oil Company  
 Ansari, Cyrus 114  
 Ansari, Hushang 78, 83, 114, 134,  
     137-8, 161  
 Arab-Israeli war (1973) effects of  
     175, 177, 180  
 Arabs of Iran 27, 193  
 Arak, machine tool complex at 44,  
     120  
 Aramco 37  
 Arbitration Councils 139-40  
 architecture 22  
 armed services *see* aircraft; Chah  
     Bahar naval base; defence;  
     military tribunals; security  
     services  
 army base 27  
 Arnold, Arthur 22, 28, 199  
 Arsanjani, Hassan 256  
 Aryamehr 61  
 Aryamehr Steel Complex 27, 49, 107  
 Ashraf Pahlavi Foundation 159  
 Ashraf, Princess 57, 65, 141-2, 166,  
     183, 234  
 assassination attempts on Shah 57,  
     131  
 Ata'i, Rear-Adm. Ramzi Abbas  
     111-12, 184  
 Atomic Energy Authority 135  
 author, background to study of 11-12  
 authority, use and abuse of 131-51  
     background 131-2  
     Prime Minister 132-4  
     Cabinet 134-6  
     Ministries 134-6  
     judiciary 138-40  
     Imperial Court 132, 140-2  
     unconstitutional aspects 142-4  
     security services 144-51  
     breakdown of Shah's 229-351  
     *see also* money, control through:  
     SAVAK  
 automotive industry *see* General  
     Motors (Iran); GKN; Irannational  
 Azerbaijan, USSR and 62-3  
 Azhari, General Gholam Reza 235  
 Bahai sect 97, 221-2, 225  
 Bakhtiar, Dr Shahpour 208-9, 211,  
     231, 232, 234, 239-40, 251,  
     259-60, 263  
 Bakhtiar, General 70, 216  
 balance of payments:  
     comparative tables of 99  
     figures for 1977 156  
 Baluchi peoples 27  
 Bandar Abbas Port 87, 88, 89  
 Bandar Shahpour project 108, 247,  
     236

- Bank Etebarat 162, 255
- banking interests, international 33, 160
- Bank Iranshahr 162, 255
- Bank Markazi *see* Central Bank
- Bank Omran 160-5, 255
- banks, names and addresses of 255
- Bazaar, the 97, 213, 214, 218, 223-6
- Bazargan, Mehdi 189, 213, 239, 263
- Behbahani, Mohammed Jafer 161
- Behshahr Industrial Group 48
- Beitz Berthold 114
- Bharier, Julian 11, 43
- Bimeh Melli Insurance Co 162, 255
- birth rate 116
- black market in food 116-17
- BP, Iran acquires shares in 115
- Britain, Iran invests in 112-13
- British foreign policy 32, 57, 66, 67, 171-2, 249
- Brown and Root (US firm) 111-12
- Burmah Oil 33
- Bushehr, Medhi 142
- business ventures into big 47-9
  - some addresses of 256-8
- Brzezinski, Zbigniew 234
- Butler, William 148
- Cabinet 132, 134
- cable links, international 32-3
- calendar, change in 61, 208
- Canard Enchaîné, Le* 156-7
- capital-intensive solutions 119-22
- Carter, President Jimmy 210, 211, 212, 229
- casinos 163
- caviar industry 32
- Cementation (British firm) 109
- cement production project 106-7, 162
- censorship 147, 237
- CENTO Alliance 177
- Central Bank (Bank Markhaz) 83, 86, 93, 106, 156, 225
- chador, the 201, 227
- Chah Bahar naval base 102, 111-12, 174, 187
- chain stores 48
- charity foundations 157-9
- Chubin, Shahram 177
- Churchill, Sir Winston 34
- CIA 65-6
- civil service:
  - tribunals 139
  - civil service *cont*
    - salaries 165
- Communism, Shah's views on 62-4
  - see also* Tudeh Party
- companies, huge increase in registration of new (1974) 83
- concessionary rights (1870s onwards) 83
- conclusions of this study 245-54
- Concorde 105
- Consortium Oil Company 35-6
- Constitution 56, 131, 219
- consumer price index 91
- contractors government withholds payment to 98
- co-operatives, agricultural 41
- coronation (1967) 61
- corruption 57, 143, 184, 199, 210, 221, 231
- Cossack Brigade 53-4
- Costans (British firm) 111-12
- Court
  - Imperial 132 140 2
  - Ministry 140-1
- credit controls
  - relaxation of 85-6
  - used up 87
- cultural problems 192 205
  - search for security 196 200
  - new influences 200-5
- Curzon Lord 34
- Cyrus the Great 53
- dam constructions 39, 117-18
- Darband Hotel, Tehran 163, 255
- D'Arcy, William 33
- defence
  - expenditure table on 176
  - influence of military forces on 170-88
    - external threats 171-3
    - American support 173-5, 233
  - credibility and effectiveness 176-80
  - activities in Oman 180-2
  - political role 182-4
  - value for money 184-8
  - policy 135-6, 155
- Denmark, Iran invests in 112
- deserts, Iranian 38-9
- Development Bank (DIBI) 162
- development plans go haywire *see* development prospects *under* Iran, successes and failures

Dez Dam 117-18  
 Dhofar offensive 180-1  
 DIBI (Development Bank) 162  
 disabled, financial assistance for 158  
 Doha, OPEC's 1976 meeting at  
 98-101  
 double cropping system 38

*Economic Development in Iran*  
 1900-1970 (Bharier) 11

economy:  
 disaster to 1974-6 *see* development  
 prospects *under* Iran  
 duality of 28  
 national *see* oil and the national  
 economy  
*see also* agriculture; industry, slow  
 diversification towards;  
 business, ventures into big,  
 money, control through

education:  
 free for all instituted 18, 81  
 payment for overseas 158, 164,  
 202  
 university 203-4, 214, 247  
*see also* University of Tehran

Education Corps 28

electricity *see* power supplies

Elghanian, Habib 96, 97

Emani, Jafar Sharif 158, 160, 164,  
 231, 237, 250

Empress, controlling influences of  
 140  
*see also* Farah Diba

Energy Ministry, emasculated power  
 of 135, 142

ENI, negotiations with 115

Eqbal, Dr Manouchehr 155, 161

espionage 145

*Etelaat*:

anti-Khomeini article in 222,  
 231

family planning 116

famine (1925) 28-9

Farah Diba, 3rd wife of Shah 61, 141  
 created Queen and Empress  
 (1967) 142, 202

Farah Pahlavi Foundation 159

Fardust, General Hussein 143

Farmanfarmaian family 47

Fatima, Princess 67

Fawzia, Princess of Egypt (Shah's  
 first wife) 57

Fedayeen 216, 237, 240

Fiat Cars 49

Fifth Plan (1973-8) 11, 38, 77, 144,  
 214, 229, 248, 249

abandoned 18

major revision 77-80

tables 81, 264-7

*see also* development prospects  
*under* Iran

finance, bazaar mentality over 198,  
 223-7

*see also* economy; money, control  
 through; oil wealth, limits to;  
*per capita* income; wages

Finance Ministry 78, 93, 139

financial centre, Tehran to be a world  
 111

*Financial Times* 11-12, 200

First Plan 37

food, subsidies planned 81, 117  
 1974 imports of 116

foreign attack, Iran's fear of 171

foreign exchange matters 79, 98,  
 113, 156

foreign investment programme, Iran's  
 112-15, 155, 163-4

foreign labour, importation of 90,  
 119

Forouhar, Darioush 208-9, 211, 234,  
 259-60

foundations, charitable 157-9

Fourth Plan (1968-72) 37-8, 45, 79,  
 105-6

France:

1971 snub by and then ingratiates  
 18

Iran invests in 112-13

Khomeini exiled in 237-8

Gajareh, meeting at 77-9

gas *see* liquid petroleum gas

GDP comparisons (1959 and 1972)  
 45

General Motors (Iran) 95, 121, 163,  
 257

Geological Institute 49

Ghahestan Sugar Corporation 165

GKN (British firm) 110

Golestan Palace 26

Goodrich, B.F. (US firm of) 95, 165,  
 257

Government *see* authority

Governorates 132, 136, 149

guerilla groups 216-17, 237, 240

- Habib Sabet 48, 96, 97  
 Hammer, Armand 114  
 Hassan, Arsanjani 70  
 Hepco road-mending project 120-1, 257  
 Hilton Hotel, Tehran 163  
 holy days 200  
 Homayoun, Daroiush 222  
 hospital programme 109-10, 119-20  
 hotels:  
     industry 163  
     names of 255-6  
 housing reorganisation plans 81, 89, 105-6  
 Hoveida, Amir Abbas 77-9, 133-4, 138, 141, 144, 209, 211-12, 222, 231, 234  
 Hudson Institute 16  
 Hushang-Arbarbi, Abdolqassem 139  
  
 illiteracy *see* literacy  
 ILO 27, 115  
 IMF:  
     Iran pits cash at disposal of 112  
     1974 visit of team from 80-1, 85  
 Imperial Aviation Club 154  
 Imperial Bank 33  
 Imperial Commission (on waste) 103, 144  
 Imperial Country Club, Tehran 154  
 Imperial Court 132, 140-2  
 Imperial Guard 240  
 Imperial Horse Society 154  
 Imperial Inspectorate *see* SAVAK  
 Imperial Organisation for Social Service (IOSS) 158, 159  
 imports:  
     Iran heavily dependent on 40  
     huge increase in (1973-4) 83  
     ports jammed 87-8  
         *see also* ports  
     of foreign labour 90, 119  
     of livestock 117  
 industrialisation policy:  
     mentioned 18  
     centre of, at Tabriz 27  
     slow diversification 43-7  
         principal products 44  
         steel plants 44-5, 49  
         Russian aid 44  
         petrochemicals 44-5  
         factory construction problems 45  
     industrialisation policy--*cont.*  
         fatal delays, reasons for 46-7  
     industry, Pahlavi Foundation's assets in 160-1  
     inflation, 1974 prospects of roaring 85  
     International Commission of Jurists, 1976, report of 148  
     international matters *see under* foreign  
     IOSS 158, 159  
     Iran Air 161, 162, 194  
     Iranian Jurists Association 210  
     Iranian National Insurance Company 159-60  
     Iranian People's Fedayeen Guerillas (Fedayeen) 216, 237, 240  
     Iran Liberation Movement 213, 218  
     Irannational (Motor Cars) 47-8, 110, 163, 179  
     Iran Novin 133-4  
     Irano-British Bank 162  
     Iran Shellcot 163  
     Ironsides, Major-Gen., Lord 54  
     irrigation 39  
     Istahan City 23, 27, 195  
         *see also* Aryamehr Steel Complex  
     Islam, introduction of 11, 193  
         *see also* religion  
  
     Javadi, Sadr Hadj 209  
     Jews, anti-profiteering laws and 97  
     J-2 145  
     judiciary 138-40, 149, 209-10  
  
     *Kavhan International* 19-20, 61, 102, 209  
     Karaj Steel Plant 44  
     Kerman, land costs in 88  
     Khademi, Lieut.-Gen. 161  
     Khatemi, Gen. Mohammed 67, 183  
     Khomeini, Ayatollah Ruhollah 11, 196, 200, 218, 219-21, 223, 229, 233, 234, 235, 236  
         exile in Iraq 220  
         move to France 237-8  
         return to Iran 239-41  
         biographical note 262-3  
     Khorramshahr Port 87, 97, 247  
     Khuzestan Farming Experiment 117-117-18  
     Kish Island, new resort at 161-2, 256, 231  
     Kissinger, Dr Henry 174

- Kouroush Stores 48  
 Krupp, Iran negotiates with 113-14  
 Kurds and rebellion 27, 62, 178-9, 252
- labour  
   shortage of local, leads to imported 90, 119  
   lack of, destroys projects' chances 108-9, 119  
   deserts agriculture for the towns 118  
   SAVAK control over 147
- land:  
   increase in price of 88-9, 120  
   reform schemes (1960 on) 40-3, 94-5
- Langeh, Bandar 149  
 legal system *see* judiciary  
   *see also* SAVAK
- legislature *see* Majles  
 Liquid Petroleum Gas 44, 107  
 Literacy Corps 29  
 literacy rate 18, 29, 203, 247, 267  
 literature 203  
 livestock, importation of 117
- Mahabaf, Kurdish Republic of* 62  
 Mahdavi, Fereidoun 97, 246  
 Mahvi, Abdol Hassan 155  
 mail, interception of 150  
 Majidi, Abdol Majid 78, 80, 100, 144  
 Majles (Parliament) 131-2, 137, 144  
 manpower *see* labour  
 Marble Palace, Tehran 26  
 Marxism, allegations of 150  
 Massoudi, Farhad 196  
 Mattei, Enrico 36  
 medical services 25, 109-10, 119-20  
 Medicopr, US 109-10  
 Meilli Industrial Group 48  
 Military College, Tehran 170  
 military intelligence 145  
 military government 232, 235-9  
 military tribunals 138-9, 145-6  
 Mina, Dr Parviz 156  
 Ministers, limited powers of 134-5  
 missile systems 186  
 Moghadem, General Nzsser 230  
 Mohammed Khatemi 67  
 Mohammed Reza Pahlavi, Shah:  
   *for details of personal life and reign see under Pahlavi dynasty*
- Mohammed Reza Pahlavi—*cont.*  
   mentioned 11  
   announces 1973 oil price rise 15  
   policy following that 16-18  
   financial plan runs into trouble 19-20  
   turns to industry rather than agriculture 43, 44  
   returns to agriculture 50  
   trials of strength with Mossadegh 61, 64-7  
   regards 1962 as turning point in fortunes 61  
   effects of wartime experiences 62  
   Soviet influences and Azerbaijan 62-3  
   state's view on communism 63, 71-2  
   flees country and returns (1953) 65  
   consolidation tactics as Supreme Ruler 66-71  
   American financial aid 68  
   Qom riots put down 69, 222-3, 228  
   institutes one-party system (1975) 72  
   *presides over Ramsar Conference* 77-9  
   its disastrous results 86-91  
   admits error of going too fast 93  
   is not strong enough to confront Bazaar merchants 97  
   underestimates Saudi Arabia 100  
   barters for arms against crude oil 101  
   publicly admits country's problems 102-3  
   sets up Imperial Commission on waste 103  
   decides on overseas investment 112  
   becomes absolutist 131-2  
   views on governmental system 132  
   method of testing public opinion 138  
   mode of absolutist rule 131-51  
   control over SAVAK 142, 145-51  
   control over NIOC 155-7  
   personal wealth 157-9  
   armed forces, his interest in 170  
   call for new cultural order 195  
   open letter to 208-9

- Mohammed Reza Pahlavi—*cont.*  
     controlled liberalisation 211-12, 213, 249  
     relationship with clergy 221, 223  
     attempts to curb power of Bazaar 224-5  
     final downfall 229-39  
 Moinian, Masratollah 140, 144, 209  
 Mojahidin 216, 240  
 monarchy *see* Mohammed Reza Pahlavi; Pahlavi dynasty, Qajar dynasty, Reza, Shah Pahlavi  
 money, control through 154-67  
     background 154-5  
     NIOC's role 155-7  
     Pahlavi Foundation 157-67  
         asset extent 159-61  
         conservative approach 162-4  
         uses of income 165-7  
 money supply  
     rocketing 85-7  
     controls imposed 93  
 Morrison Knudsen 43  
 Mossadegh, Mohammed 35, 61, 64-7, 148, 208, 213, 220, 230, 245, 251-2  
 motor industry *see* General Motors (Iran); GKN, Irannational  
  
 Nasrudin, The Mulla 196-7  
 Nassiri, Gen. Nematollah 67, 146, 152, 230-1, 234  
 National Front Party 68-9, 148, 149, 208, 209, 212-13, 218, 220, 229-30, 232, 236, 239, 240  
 National Insurance Company 159-60  
 National Investment Company of Iran 94  
 National Iranian Oil Company (NIOC):  
     mentioned 16, 36  
     as Anglo-Persian and Anglo-Iranian Oil Company 34-5  
     takes full control (1973) 36  
     shortfall in production 37  
     offers discounts 98  
     switches plans to one of its own 108  
     Shah virtually in control of 135, 155-6  
     role in monetary matters 155-6, 166  
 National Iranian Tanker Company 160  
  
 nationalisation of oil industry 35, 65  
 national plans *see under* First Plan etc.  
 Navy, forces and arms in 187  
     *see also* Chah Baber naval base  
 needy, financial aid for 158  
 newspapers *see* Press  
 Niavaran Palace 26  
 NIOC *see* National Iranian Oil Company  
 Nixon, President Richard M. 173-4  
  
 Occidental, negotiations with firm of 114  
 oil  
     and the national economy 32-5  
         historical background 32-4  
         D'Arcy's concessions 33  
         first discovery (1908) 33  
         first production (1912) 34  
         revenue (1911-30) 34  
         effects of World War II 34  
         nationalisation (1951) 35  
         1954 agreement 35  
         NIOC formed (1957) 36  
         Tehran Agreements (1971) 36  
         Iran takes over full control (1973) 36-7  
     development project for 107-8  
     1973 OPEC price rise in 15-16  
     wealth from, limits to 93-103  
         money curbs 93  
         profiteering outlawed 94, 96, 97  
         political gestures 94-7  
         National Investment Company of Iran, floating of 94  
         business fears 95-6  
         arrest of prominent businessmen 96  
     price controls, disruptive effect of 96  
     ports, controls seriously restrict use of 97  
     oil as a variable 96-101  
         fall in revenue (from 1975) 97-8  
         climatic effects on sales 97  
         contractors' bills unmet 98  
         discounts used to improve trade 98  
         foreign exchange problems 98  
         more sales drops (1977) 99-100



oil—*cont.*

- full circle 101-3
  - arms bartering 101
  - PBO speaks up 101
  - projects abandoned 102
  - public in ignorance 101
  - Shah admits problems and calls for hard work from nation 103

Oil Service Company of Iran (OSCO)  
36-7, 49

Oman, Iranian intervention in 180

Omran Trinwall 165

one-party system (1975) 72

OPEC 15-17, 97-8, 100

opium poppy 39-40

Oveissi, General Gholami 235

Pahlavi dynasty 19, 20, 53-72

from Cyrus to the Qajars 53

Reza Khan, Shah 53-7

born (1878) 53-4

joins Cossack Brigade (1892)  
53-4

becomes commander 54

marches on Tehran 54

gives ultimatum to Shah  
Ahmad 54

is crowned (1926) 54

renames Persia as Iran 55

ruthlessness 55-6

achievements 56

abdicates (1941) 57

goes into exile 57

dies (1944) 67

Mohammed Reza, Shah 57-61

born (1919) 57

Crown Prince (1926) 57

ill health 57

character 57

assassination attempts 57-8

education 58

authoritarian outlook 58, 60

marries Princess Fawzia 55

difference in public and  
private manner 60

marries Farah Diba 61

heir is born 61

coronation (1967) 61

takes title of Aryamehr 61

Golden Jubilee (1976) 60-1

alters calendar 61

*see also* Persepolis Festival  
*for political and governmental*

Pahlavi dynasty—*cont.*

*activities see* Mohammed  
Reza Pahlavi, Shah

Pahlavi Estates Office 177

Pahlavi Foundation 157-9, 231

assets of 159-61

conservative approach of 162-5

uses of income 165-7

Pakravan, General 70

Pan Am, Iran negotiates with 113

Parliament *see* Majles

peasants:

life-style of 28

land reform and 41-2, 122

People's Fighters' Organisation  
(Mojahedin) 216, 240

Persepolis Festival (1973) 18, 60,  
111, 173

Persia becomes Iran (1934) 55

Persian Gulf Ports, revenue of 32

petrochemicals 44-5, 108

Peykans (cars) 48, 91

philanthropy, Shah's 157-9

Plan and Budget Organization (PBO)  
mentioned 77, 144

changes made (1974) 77-8

disastrous results of 86-91

criticises Shah's policy 101

NIOC budget and 155-6

plans, national *see* First Plan etc.

'pole' system for farming land 42-3

police 133, 147, 156, 192

*Political Elite of Iran, The* (Zonis)  
11, 55

*see also* Zonis, Marvin

population of Tehran 22, 24

ports:

development plan for 87

mounting delays at 87-8, 120,  
246-7

price control effects on 96-7

capacity inadequate 108

power *see* authority

power supplies 118, 120-1, 197

Press 25, 132, 137, 138, 149, 196

*see also* Kayhan International

price war 95-7, 136

Prime Minister, office of 132, 133

printing industry 25, 203

priorities, no thought given to 105

public health, development plans for  
81

public transport system in Tehran  
22-3, 192

- publishing 203
- Qaboos, Sultan of Oman 180-1
- Qajar dynasty 23, 33, 53, 54-5
- qanats* 39
- Qashgai peoples 40
- Qazvin 62, 122, 163
- Qom city 149, 218, 220, 221, 252  
  nots at 69, 222-3, 226, 228
- Queen Pahlavi Foundation 159
- Radio Peik'i Iran 215
- railways 23, 24, 33, 102  
  Trans-Iranian Railway 43
- Rumsar, 1974 Conference at 19, 77-9
- Rasht, land costs in 88-9
- Rastakhiz* (newspaper) 135, 209
- Rashtakhiz Party 72, 96, 132, 136-8,  
  148-9, 212, 220, 222, 226, 227,  
  231, 235, 246
- referendum (1963) 71
- religion 193, 197, 200-1, 217-19,  
  250-1  
  *see also* Khomeini, Ayatollah  
  Ruhollah, Shariat-Maderi,  
  Ayatollah
- rents 89
- Reporter, Sir Shapoor 67-8, 155
- Republic, Reza Shah considers a 54
- Reuter's News Agency 33
- Rezaieh, City of 62
- Reza Khan, Shah Pahlavi 23, 24, 47,  
  50, 64, 155, 252  
  *for personal life see under*  
  Pahlavi dynasty
- Reza Pahlavi, Prince 61, 249
- roads, effect of inadequacy 108, 120-  
  120-1  
  *see also* Hepco road-mending  
  project
- Roosevelt, Kermit 66
- Rowhani, Ayatollah 221
- rural society 27-30, 40, 122
- Russian policy 32, 44, 57, 62-3,  
  67, 177-8, 215-16, 249
- Saadabad Palace 26
- Sabet, Habib 48, 96, 97
- Samii Mehdi 161
- Sanjabi, Karim 208-9, 211, 232, 234,  
  259-60
- SAVAK 67-71, 90, 103, 132, 142-51,  
  161-2, 211, 212, 214, 216, 217,  
  222, 229, 230-1, 239
- Schlesinger, James 173
- schools *see* education
- Second Plan (1955-62) 35, 37
- security services 144-51  
  widows, pensions of 158
- Sedim (French firm) 109
- sewerage system of Tehran 22
- Shafik, Captain Prince 183
- Shah of Iran *see* Mohammed Reza  
  Pahlavi, Shah, Pahlavi dynasty
- Shahestan Pahlavi Commercial Centre  
  26, 60
- Shahnaz youth clubs 159
- Shahyad monument 60
- sharecropping system 40
- share divestiture scheme 94
- Shariat-Maderi, Ayatollah 219, 221,  
  228, 229
- Shism 193, 200, 218-19, 235
- Shiraz, City of 23, 27  
  Arts Festival at 202
- Shuster, Morgan 154
- Sixth Plan 18-19, 103
- social insurance, development plans  
  for 81, 158, 166
- society, nature of dual 27-30
- Soraya Lsfandiar, Princess 70
- Special Bureau, Shah's 132, 140-1,  
  209
- steel, projects for 107-8
- steel plants  
  Isfahan 44, 49  
  Karaj 44
- Straits of Hormuz, strategic  
  importance of 172
- student unrest 213-15, 227  
  overseas 215-16
- successes and failures of projects  
  105-22  
  housing 105-6  
  cement 106-7  
  steel and oil 107-8  
  infrastructure 108-9  
  manpower shortages 108-9  
  real and marginal need 109-12  
  investment abroad 112-15  
  Concorde aircraft 105  
  delays and time-lags 107-8  
  roads 108  
  port capacity 108  
  hospital programme 109-10  
  motor industry 110  
  Tehran plan as centre of world  
  finance 111

## successes and failures of projects

-cont.

armed forces projects 111-12

*Chah Bahar* naval base 111-12

investments overseas 112-15

agriculture 115-17

capital-intensive solutions 119-22

sugar, Pahlavi Foundation's interest  
in 163, 165

factories 257, 258

Tabriz, City of 23, 24, 27, 62, 88

riot in 226-7, 228

Taheri, Amir 102

Taleghani, Ayatollah Mahmoud 146,  
218, 221

Tate and Lyle 143-4

Tehran, City of 22-3, 25, 26, 27,  
111, 154, 202, 256Tehran Agreements (1971) 36, 37,  
79

Tehran Cement Company 162

Tehran Military College 170

Tehran Poultry Farm 122

Tehran University *see* University of  
Tehran

telegraphic links, international 32-3

telephone system 22

textiles 44

Third Plan (1963-7) 38, 45

torture, allegations of 148, 150, 221,  
237

tourist centres 256

tractor assembly 49

traffic problems of Tehran 22-3, 192

tribalism 24, 27-30, 40

tribunals 138-9

Tudeh Party 66, 148, 213, 215

Turkoman people 40

## unemployment 108-9

United Arab Emirates 171-2

University of Tehran 25, 55, 57-8,  
58-9, 69, 148, 203, 204, 213

## urban development 22-30

urbanisation, sudden tendency  
towards 24, 29

urban society 27-30

USA:

moves to take over oilfields  
(1972) 17

attitude to Mossadegh 66-7

support for Iran's military forces  
173-6, 233announces Shah's decision to  
leave 234

Vahidi, Iraj 142

Vanak Hotel, Tehran 163

Vance, Cyrus 234

Vienna, OPEC meeting at (1975)  
97-100

Vossuk family 47

wages 89-90, 120, 121

Wahabzadeh, Mohammed 96

waste, Imperial Commission on 103

water, serious lack of 38, 39, 117-18

wealth *see* economy; money, control  
through; oil wealth, limits to;  
wagesWhite Revolution 71-2, 136, 213,  
218, 220, 229

Williamson, Major-Gen. Ellis 173

women, role in Shah's overthrow  
227-8

World Bank, Iran invests in 112

World War II, effects of 34, 57

xenophobia 104, 196

Yamani, Sheikh Ahmad Zaki 16, 100

Yazdani, Hozhabr 222, 225

Zagros mountains 32

Zahedi, Ardeshtir 233-4

Zahedi, General 70

Ziyade, Taher 161

Zonis, Marvin 11, 55, 129, 157, 165